

**CITY OF SPIRIT LAKE
INDEPENDENT AUDITORS' REPORTS
BASIC FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS AND
QUESTIONED COSTS
JUNE 30, 2007**

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CITY OF SPIRIT LAKE
OFFICIALS

<u>NAME</u>	<u>TITLE</u>	<u>TERM EXPIRES</u>
Eric Nielsen	Mayor	December 31, 2007
Jerry Harbst	Council Member	December 31, 2007
Jeff Thee	Council Member - to December 31, 2006	
Kevin Bice	Council Member	December 31, 2007
Clyde Ihrke	Council Member	December 31, 2009
Steve Balm	Council Member	December 31, 2009
Sara Frerichs	Council Member - from January 1, 2007	December 31, 2007
Peter Hegeman	Clerk/Administrator/Treasurer - resigned September 29, 2006	
Mark Stevens	Clerk/Administrator/Treasurer - from January 1, 2007	December 31, 2007
Earl Maahs	Attorney	December 31, 2007

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INDEPENDENT AUDITORS' REPORT

To the Honorable Mayor and
Members of the City Council
City of Spirit Lake
Spirit Lake, IA 51360

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund, and the aggregate remaining fund information of the City of Spirit Lake, Iowa, as of and for the year ended June 30, 2007, which collectively comprise the City's basic financial statements listed in the table of contents. These financial statements are the responsibility of the City of Spirit Lake's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business type activities, each major fund, and the aggregate remaining fund information of the City of Spirit Lake at June 30, 2007 and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 9, 2008 on our consideration of the City of Spirit Lake's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Management's discussion and analysis and budgetary comparison information on pages 4 through 13 and 55 through 59 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Spirit Lake's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the four years ended June 30, 2006 (which are not presented herein) and expressed an unqualified opinion on the June 30, 2004, 2005, and 2006 financial statements and a qualified opinion on the June 30, 2003 financial statements due to the omission of the general fixed asset account group. Other supplementary information included in Schedules 1 through 4, including the Schedule of Expenditures of Federal Awards required by the U.S. Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organization*, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Winther, Stove & Co. LLP

January 9, 2008

MANAGEMENT'S DISCUSSION AND ANALYSIS

The City of Spirit Lake provides this management's discussion and analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2007. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

2007 Financial Highlights

- Revenues of the City's governmental activities increased 13.55%, or approximately \$697,000 from fiscal 2006 to fiscal 2007. Property tax increased approximately \$333,400.
- Program expenditures increased by 34.80% or approximately \$3,612,700, in fiscal 2007 from fiscal 2006. Public safety, public works, debt service, and capital projects expenditures increased by approximately \$82,000, \$273,000, \$1,215,300, and \$2,250,300, respectively. Culture and recreation, community and economic development, and general government expenditures decreased by approximately \$89,500, \$71,800, and \$46,600, respectively.
- The City's net assets increased 7.87%, or approximately \$1,568,000, from June 30, 2006 to June 30, 2007. Of this amount, the net assets of the governmental funds increased by approximately \$867,500 and the net assets of the business type activities increased by approximately \$700,500.

Using This Annual Report

The annual report consists of a series of financial statements and other information as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the City's financial activities.

The Government-wide Financial Statements consist of a Statement of Net Assets and a Statement of Activities. These statements provide information about the activities of the City as a whole and present an overall view of the City's finances.

The fund financial statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report the City's operations in more detail than the government-wide statements by providing information about the most significant funds.

Notes to financial statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the City's budget for the year.

Other Supplementary Information provides detailed information about the non-major governmental funds. In addition, the Schedule of Expenditures of Federal Awards provides details of various programs benefiting the City.

Basis of Accounting

The City financial statements are prepared in accordance with U.S. generally accepted accounting principles (GAAP). The City prepares its budget and maintains its financial records on the cash basis.

Reporting The City's Financial Activities

Government-wide Financial Statements

One of the most important questions asked about the City's finances is, "Is the City as a whole better off or worse off as a result of the year's activities?" The Statement of Net Assets and the Statement of Activities reports information which helps answer this question. These statements include all assets and liabilities using the accrual basis of accounting and the economic resources measurement focus, which is similar to the accounting used by most private sector companies. All of the current year's revenues and expenses are taken into account, regardless of when cash is received or paid.

The Statement of Net Assets presents all of the City's assets and liabilities, with the difference reported as "net assets". Over time, increases or decreases in the City's net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The Statement of Activities presents information showing how the City's net assets changed during the most recent fiscal year.

The Statement of Net Assets and the Statement of Activities report two kinds of activities:

- Governmental activities include public safety, public works, culture and recreation, community and economic development, general government, debt service, and capital projects. Property tax and state and federal grants finance most of these activities.
- Business Type Activities include the waterworks, the sanitary sewer system, and the solid waste department. These activities are financed primarily by user charges.

Fund Financial Statements

The City has two kinds of funds:

1. Governmental funds account for most of the City's basic services. These focus on how money flows into and out of those funds, and the balances at year-end that are available for spending. The governmental funds include: (a) the General Fund, (b) the Special Revenue Funds, such as Local Option Sales Tax and Tax Increment Financing, (c) the Debt Service Fund, and (d) the Capital Projects Fund. The governmental fund financial statements provide a detailed, short-term view of the City's general governmental operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

The required financial statements for governmental funds include a balance sheet and a statement of revenue, expenditures and changes in fund balances.

2. Proprietary funds account for the City's Enterprise and Internal Service Funds. Enterprise Funds are used to report business type activities. The City maintains three Enterprise Funds to provide separate information for the water, sewer, and solid waste funds, considered to be major funds of the City. The City has two Internal Service Funds which are used to account for the City's self-insurance and to account for reserves accumulated to fund future equipment purchases.

The required financial statements for proprietary funds include a statement of net assets, a statement of revenue, expenses and changes in fund net assets, and a statement of cash flows.

Government-Wide Financial Analysis

Net assets may serve over time as a useful indicator of financial position. The analysis that follows focuses on the changes in the net assets for governmental and business type activities.

Net Assets as of June 30, 2007

	Governmental Activities	Business Type Activities	Total
Current and other assets	\$ 5,740,288	\$ 3,119,252	\$ 8,859,540
Capital assets	<u>35,884,983</u>	<u>12,868,785</u>	<u>48,753,768</u>
Total assets	<u>41,625,271</u>	<u>15,988,037</u>	<u>57,613,308</u>
Long-term liabilities	20,353,701	5,409,238	25,762,939
Other liabilities	<u>9,971,172</u>	<u>388,649</u>	<u>10,359,821</u>
Total liabilities	<u>30,324,873</u>	<u>5,797,887</u>	<u>36,122,760</u>
Net assets:			
Invested in capital assets - net of related debt	12,444,639	7,946,888	20,391,527
Restricted	721,723	20,124	741,847
Unrestricted	<u>(1,865,964)</u>	<u>2,223,138</u>	<u>357,174</u>
Total net assets	<u>\$11,300,398</u>	<u>\$10,190,150</u>	<u>\$21,490,548</u>

Net Assets as of June 30, 2006

	Governmental Activities	Business Type Activities	Total
Current and other assets	\$ 5,550,679	\$ 1,696,639	\$ 7,247,318
Capital assets	<u>29,135,155</u>	<u>11,126,126</u>	<u>40,261,281</u>
Total assets	<u>34,685,834</u>	<u>12,822,765</u>	<u>47,508,599</u>
Long-term liabilities	17,345,831	3,130,232	20,476,063
Other liabilities	<u>6,907,114</u>	<u>202,878</u>	<u>7,109,992</u>
Total liabilities	<u>24,252,945</u>	<u>3,333,110</u>	<u>27,586,055</u>
Net assets:			
Invested in capital assets - net of related debt	11,148,203	7,592,998	18,741,201
Restricted	1,539,854		1,539,854
Unrestricted	<u>(2,255,168)</u>	<u>1,896,657</u>	<u>(358,511)</u>
Total net assets	<u>\$10,432,889</u>	<u>\$ 9,489,655</u>	<u>\$19,922,544</u>

Changes in Net Assets for the Year Ended June 30, 2007

	Governmental Activities	Business Type Activities	Total
Revenues:			
Program revenues:			
Charges for services	\$ 135,011	\$ 2,587,180	\$ 2,722,191
Operating grants, contributions, and restricted interest	591,625	7,174	598,799
Capital grants, contributions, and restricted interest	600,000	9,408	609,408
General revenues:			
Property and other city taxes	1,655,622		1,655,622
Tax increment financing	1,872,314		1,872,314
Local option sales tax	795,608		795,608
Unrestricted investment earnings	126,954	23,616	150,570
Unrestricted miscellaneous	109,728		109,728
Operating transfers	3,900	(3,900)	
Fixed asset transfers	(511,000)	511,000	
Total revenues	<u>5,379,762</u>	<u>3,134,478</u>	<u>8,514,240</u>
Program expenses:			
Public safety	905,379		905,379
Public works	1,387,418		1,387,418
Culture and recreation	592,154		592,154
Community and economic development	413,350		413,350
General government	347,308		347,308
Debt service	866,644		866,644
Water		1,525,870	1,525,870
Sewer		178,613	178,613
Solid waste		729,500	729,500
Total expenses	<u>4,512,253</u>	<u>2,433,983</u>	<u>6,946,236</u>
Change in net assets	867,509	700,495	1,568,004
Net assets - beginning of year	<u>10,432,889</u>	<u>9,489,655</u>	<u>19,922,544</u>
Net assets - end of year	<u>\$11,300,398</u>	<u>\$10,190,150</u>	<u>\$21,490,548</u>

Net assets of governmental activities increased from FY06 by approximately \$867,500 or 8.32%. Net assets of business type activities increased from FY06 by approximately \$700,500 or 7.38%. The largest portion of the City's net assets is invested in capital assets (e.g. land, infrastructure, buildings, and equipment), less the related debt. The debt related to the investment in capital assets is liquidated with sources other than capital assets. Restricted net assets represent resources that are subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. Other restricted net assets are economic development loans.

Changes in Net Assets for the Year Ended June 30, 2006

	Governmental Activities	Business Type Activities	Total
Revenues:			
Program revenues:			
Charges for services	\$ 172,408	\$2,301,925	\$ 2,474,333
Operating grants, contributions, and restricted interest	484,559	886	485,445
Capital grants, contributions, and restricted interest	125,732	23	125,755
General revenues:			
Property and other city taxes	1,293,761		1,293,761
Tax increment financing	2,172,594		2,172,594
Local option sales tax	662,261		662,261
Unrestricted grants and contributions			
Unrestricted investment earnings	100,586	38,699	139,285
Unrestricted miscellaneous	82,792		82,792
Operating transfers	3,450	(3,450)	
Fixed asset transfers	(297,852)	297,852	
Total revenues	<u>4,800,291</u>	<u>2,635,935</u>	<u>7,436,226</u>
Program expenses:			
Public safety	881,040		881,040
Public works	1,160,477		1,160,477
Culture and recreation	542,766		542,766
Community and economic development	485,133		485,133
General government	340,037		340,037
Debt service	682,230		682,230
Water		1,396,540	1,396,540
Sewer		167,418	167,418
Solid waste		655,531	655,531
Total expenses	<u>4,091,683</u>	<u>2,219,489</u>	<u>6,311,172</u>
Change in net assets	708,608	416,446	1,125,054
Net assets - beginning of year	<u>9,724,281</u>	<u>9,073,209</u>	<u>18,797,490</u>
Net assets - end of year	<u>\$10,432,889</u>	<u>\$9,489,655</u>	<u>\$19,922,544</u>

Individual Major Governmental Fund Analysis

Changes in Fund Balances - Governmental Funds For the Years Ended June 30, 2007 and 2006

	2007 <u>All Funds</u>	2006 <u>All Funds</u>
Revenues	\$ 5,838,956	\$ 5,142,078
Expenditures	<u>13,994,077</u>	<u>10,381,329</u>
Net	(8,155,121)	(5,239,251)
Other financing sources and changes in inventories and prepaids	<u>5,231,993</u>	<u>6,068,055</u>
Increase (decrease) in fund balances	(2,923,128)	828,804
Fund balance - beginning of year	<u>(1,380,240)</u>	<u>(2,209,044)</u>
Fund balance - end of year	<u>\$ (4,303,368)</u>	<u>\$ (1,380,240)</u>

Governmental funds reported a combined fund deficit of \$4,303,368 at June 30, 2007 which was \$2,923,128 more than the fund deficit at June 30, 2006.

The general fund showed an increase in fund balance of \$131,751 to \$383,699. The increase was due in part to the City requesting less than 100% of tax increment financing revenues, which resulted in more property taxes credited to the general fund.

The local option sales tax fund showed a decrease in fund balance of \$649,283 to \$419,913 due to the purchase of \$758,000 of equipment.

The tax increment financing fund showed a decrease in fund balance of \$888,163 due to transfers to the capital projects fund.

The capital project fund showed a decrease in fund balance of \$1,515,620 and is showing a deficit of \$5,240,200. This deficit will be eliminated by the proceeds of a new bond issue.

Individual Major Business Type Fund Analysis

Changes in Net Assets - Proprietary Funds For the Years Ended June 30, 2007 and 2006

	Enterprise Funds		Internal Service Funds	
	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
Revenues	\$2,622,948	\$2,338,745	\$ 63,504	\$ 41,793
Expenses	<u>2,450,220</u>	<u>2,222,921</u>	<u>21,133</u>	<u>28,811</u>
Net	172,728	115,824	42,371	12,982
Net transfers	<u>436,600</u>	<u>293,402</u>	<u>117,500</u>	<u>(6,860)</u>
Increase in net assets	609,328	409,226	159,871	6,122
Net assets - beginning of year	<u>9,367,696</u>	<u>8,958,470</u>	<u>246,186</u>	<u>240,064</u>
Net assets - end of year	<u>\$9,977,024</u>	<u>\$9,367,696</u>	<u>\$ 406,057</u>	<u>\$ 246,186</u>

Proprietary funds reported combined net assets of \$10,383,081 at June 30, 2007 which was an increase of \$769,199 over the net assets at June 30, 2006.

The water fund showed an increase in net assets of \$130,332 due to transfers of capital assets from the capital projects funds of \$194,000. The sewer and solid waste funds showed increases in net assets of \$369,446 and \$109,550, respectively. The internal services funds showed a combined increase in net assets of \$159,871.

Budgetary Highlights

Over the course of the year, the City amended the budget once. The amendment was approved on May 8, 2007. This amendment was to cover additional public works, capital project, and debt service expenditures and to delete a water plant expansion project. Disbursements did not exceed budgeted amounts.

Capital Assets and Debt Administration

Capital Assets Administration

The City's capital assets are summarized as follows:

June 30, 2007

	Governmental Activities	Business Type Activities	Total
Land	\$ 412,903	\$ 96,859	\$ 509,762
Construction in progress	10,755,305	2,155,318	12,910,623
Buildings and improvements	1,908,473	5,814,548	7,723,021
Water towers		891,356	891,356
Equipment and vehicles	3,435,463	1,502,788	4,938,251
Infrastructure	25,051,304	5,880,713	30,932,017
Total capital assets	41,563,448	16,341,582	57,905,030
Less accumulated depreciation	5,678,465	3,472,797	9,151,262
Net capital assets	<u>\$35,884,983</u>	<u>\$12,868,785</u>	<u>\$48,753,768</u>
Depreciation expense	\$ 804,368	\$ 338,912	\$ 1,143,280

June 30, 2006

	Governmental Activities	Business Type Activities	Total
Land	\$ 412,903	\$ 96,859	\$ 509,762
Construction in progress	4,752,165	643,360	5,395,525
Buildings and improvements	1,882,153	5,814,548	7,696,701
Water towers		891,356	891,356
Equipment and vehicles	2,729,002	1,458,551	4,187,553
Infrastructure	24,291,992	5,355,337	29,647,329
Total capital assets	34,068,215	14,260,011	48,328,226
Less accumulated depreciation	4,933,060	3,133,885	8,066,945
Net capital assets	<u>\$29,135,155</u>	<u>\$11,126,126</u>	<u>\$40,261,281</u>
Depreciation expense	\$ 687,053	\$ 317,683	\$ 1,004,736

Major additions to government activities capital assets include 28th Street and Sunner (235th) Avenue reconstruction, the 2006 paving and lighting projects, and the 2007 paving and utility project.

Major additions to the business type activities capital assets include work on the new water tower.

Debt Administration

At June 30, 2007, the City had \$25,805,420 in bonds and other long-term debt, compared to \$20,465,000 last year as shown below.

Outstanding Debt at Year-End

	June 30,	
	<u>2007</u>	<u>2006</u>
General obligation bonds and notes	\$12,557,420	\$11,385,000
General obligation annual appropriation bonds	10,310,000	5,000,000
Local option sales tax revenue bonds		1,000,000
Water revenue capital loan notes	<u>2,938,000</u>	<u>3,080,000</u>
Total	<u>\$25,805,420</u>	<u>\$20,465,000</u>

The Constitution of the State of Iowa limits the amount of general obligation debt cities can issue to 5% of the assessed value of all taxable property within the City's corporate limits. The City's outstanding general obligation debt of \$12,557,420 is within its constitutional debt limit of \$17,077,034. The water revenue capital loan notes used to finance the water plant improvement project do not count toward the City's legal 5% debt limitations. The annual appropriation bonds count toward the City's debt limitation only to the extent of principal and interest due within the next fiscal year.

The City issued \$5,310,000 in general obligation annual appropriation bonds, \$610,000 in general obligation bonds (reported in the sewer enterprise fund), and \$1,802,420 of general obligation capital loan notes (reported in the water enterprise fund) during the year ended June 30, 2007.

Economic Factors Bearing on the City's Future

The City of Spirit Lake is undergoing a period of transition. Over the past several years, the City has invested heavily in infrastructure to encourage new residential and commercial development. This has been generally successful, and Spirit Lake is one of the new non-metro Iowa cities to experience population growth. The tax base has also grown significantly. However, this policy has resulted in substantial debt; and due to the use of tax increment financing (TIF), much of the tax base growth is not available to the general fund.

The City Council has now changed direction and has stated that the past practice of City infrastructure development will cease. A new City Administrator was hired in January 2007 and is carrying out a program of strict budget management. The Administrator and Council have set a primary goal of improving the City's financial condition. As a result, strong effort will be placed on limiting and reducing debt, limiting expenditure growth, and improving fund balances, especially the general fund.

Specific actions to carry this out include passage in August 2007 of a reallocation of local option sales tax funds. This will provide that 60% of the funds received will be placed in the general fund rather than used for capital projects. In addition, TIF funds will be used directly when possible to avoid debt, the number of employees has been reduced, and debt restructuring will be considered.

In the area of capital projects, the focus has shifted from building new developments to improving existing commercial and residential areas. Programs to strengthen downtown businesses are being implemented, older sewer lines are being rehabilitated, and other minor developments are being promoted that will utilize existing City infrastructure rather than requiring new placement of facilities. When new development is considered, the City has taken the position that it is the role of the developer, rather than the City, to invest in the infrastructure. This new policy is now being tested.

The City has substantial areas open and ready for new construction. Given the attractiveness of the area because of the lakes and other amenities, it is believed that significant growth will continue and that the City's financial condition will improve over the next two to three years.

Contacting the City's Financial Management

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the City office, 1803 Hill Avenue, Spirit Lake, Iowa.

BASIC FINANCIAL STATEMENTS

CITY OF SPIRIT LAKE
STATEMENT OF NET ASSETS
JUNE 30, 2007

	Governmental Activities	Business Type Activities	<u>Total</u>
ASSETS			
Cash and pooled investments	\$ 753,309	\$ 2,643,884	\$ 3,397,193
Receivables - net, where applicable, of allowances for uncollectibles:			
Property tax:			
Delinquent	14,364		14,364
Succeeding year	1,365,498		1,365,498
Tax increment financing:			
Delinquent	7,129		7,129
Succeeding year	2,846,318		2,846,318
Accounts and unbilled usage	7,762	296,888	304,650
Special assessments - current portion		1,652	1,652
Accrued interest	2,006	888	2,894
Economic development loans	235,137		235,137
Due from other governments	459,335	1,045	460,380
Inventories	26,463	50,368	76,831
Prepaid expenses	22,967	22,244	45,211
Restricted assets:			
Cash and pooled investments		41,409	41,409
Special assessments - net of current portion		5,000	5,000
Loan fees - net of accumulated amortization		55,874	55,874
Capital assets - net of accumulated depreciation	<u>35,884,983</u>	<u>12,868,785</u>	<u>48,753,768</u>
 TOTAL ASSETS	 <u>41,625,271</u>	 <u>15,988,037</u>	 <u>57,613,308</u>

CITY OF SPIRIT LAKE
STATEMENT OF NET ASSETS - Continued
JUNE 30, 2007

	Governmental Activities	Business Type Activities	Total
LIABILITIES			
Accounts payable	\$ 2,976,207	\$ 232,560	\$ 3,208,767
Checks written in excess of available cash	2,249,861		2,249,861
Retainages payable	366,442	89,160	455,602
Due to other governments		13,830	13,830
Salaries payable	46,399	38,276	84,675
Accrued interest payable	66,547	14,823	81,370
Deposit on new bond issue	53,900		53,900
Deferred revenues:			
Succeeding year property tax	1,365,498		1,365,498
Succeeding year tax increment financing	2,846,318		2,846,318
Long-term liabilities:			
Portion of payable due within one year:			
Customer deposits		21,285	21,285
Compensated absences	57,457	46,645	104,102
General obligation bonds	1,085,000	1,000	1,086,000
Revenue notes payable		146,000	146,000
Portion due of payable after one year:			
General obligation bonds	19,211,244	2,402,308	21,613,552
Revenue notes payable	<u> </u>	<u>2,792,000</u>	<u>2,792,000</u>
TOTAL LIABILITIES	<u>30,324,873</u>	<u>5,797,887</u>	<u>36,122,760</u>
NET ASSETS			
Invested in capital assets - net of related debt	12,444,639	7,946,888	20,391,527
Restricted for:			
Debt service	(48,113)	20,124	(27,989)
Economic development loans	235,137		235,137
Special revenue purposes	534,699		534,699
Unrestricted	<u>(1,865,964)</u>	<u>2,223,138</u>	<u>357,174</u>
TOTAL NET ASSETS	<u>\$11,300,398</u>	<u>\$10,190,150</u>	<u>\$21,490,548</u>

CITY OF SPIRIT LAKE
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2007

		Program Revenues		
		Charges for	Operating Grants, Contributions, and Restricted Interest	Capital Grants, Contributions, and Restricted Interest
	<u>Expenses</u>	<u>Services</u>		
FUNCTIONS/PROGRAMS:				
GOVERNMENTAL ACTIVITIES:				
Public safety	\$ 905,379	\$ 124,147	\$ 37,351	
Public works	1,387,418		357,613	\$600,000
Culture and recreation	592,154	4,888	63,598	
Community and economic development ...	413,350		133,062	
General government	347,308	1,580		
Interest and fees on long-term debt	866,644	4,396	1	
TOTAL GOVERNMENTAL ACTIVITIES	<u>4,512,253</u>	<u>135,011</u>	<u>591,625</u>	<u>600,000</u>
BUSINESS TYPE ACTIVITIES:				
Water	1,525,870	1,482,521	3,881	9,408
Sewer	178,613	243,265	865	
Solid waste	729,500	861,394	2,428	
TOTAL BUSINESS TYPE ACTIVITIES	<u>2,433,983</u>	<u>2,587,180</u>	<u>7,174</u>	<u>9,408</u>
TOTAL	<u>\$6,946,236</u>	<u>\$2,722,191</u>	<u>\$ 598,799</u>	<u>\$609,408</u>

GENERAL REVENUES:

Property and other city taxes levied for:	
General purposes	
Tax increment financing	
Local option sales tax	
Unrestricted investment earnings	
Unrestricted miscellaneous	
Operating transfers	
Fixed asset transfers	
TOTAL GENERAL REVENUES	

CHANGE IN NET ASSETS

NET ASSETS - BEGINNING OF YEAR

NET ASSETS - END OF YEAR

Exhibit B

Net (Expense) Revenue and Changes in Net Assets

<u>Governmental Activities</u>	<u>Business Type Activities</u>	<u>Total</u>
\$ (743,881)		\$ (743,881)
(429,805)		(429,805)
(523,668)		(523,668)
(280,288)		(280,288)
(345,728)		(345,728)
<u>(862,247)</u>		<u>(862,247)</u>
<u>(3,185,617)</u>		<u>(3,185,617)</u>
	\$ (30,060)	(30,060)
	65,517	65,517
	<u>134,322</u>	<u>134,322</u>
	<u>169,779</u>	<u>169,779</u>
<u>(3,185,617)</u>	<u>169,779</u>	<u>(3,015,838)</u>
1,655,622		1,655,622
1,872,314		1,872,314
795,608		795,608
126,954	23,616	150,570
109,728		109,728
3,900	(3,900)	
<u>(511,000)</u>	<u>511,000</u>	
<u>4,053,126</u>	<u>530,716</u>	<u>4,583,842</u>
867,509	700,495	1,568,004
<u>10,432,889</u>	<u>9,489,655</u>	<u>19,922,544</u>
<u>\$11,300,398</u>	<u>\$10,190,150</u>	<u>\$21,490,548</u>

CITY OF SPIRIT LAKE
BALANCE SHEET - GOVERNMENTAL FUNDS
JUNE 30, 2007

ASSETS

	<u>General</u>	<u>Local Option Sales Tax</u>	<u>Tax Increment Financing</u>
ASSETS:			
Cash and pooled investments	\$ 133,863	\$ 305,757	\$ 37,209
Receivables - net, where applicable, of allowance for uncollectibles:			
Property tax:			
Delinquent	11,532		
Succeeding year	1,071,342		
Tax increment financing:			
Delinquent			7,129
Succeeding year			2,846,318
Accounts	7,762		
Accrued interest	681	2	591
Economic development loans	235,137		
Due from other governments	10,492	119,579	
Inventories	26,463		
Prepaid expenses	22,967		
 TOTAL ASSETS	 <u>\$1,520,239</u>	 <u>\$ 425,338</u>	 <u>\$2,891,247</u>

LIABILITIES AND FUND EQUITY

LIABILITIES:			
Accounts payable	\$ 24,634	\$ 5,425	
Checks written in excess of available cash			
Retainages payable			
Salaries payable	40,564		
Deferred revenue:			
Succeeding year property tax	1,071,342		
Succeeding year tax increment financing			\$2,846,318
TOTAL LIABILITIES	<u>1,136,540</u>	<u>5,425</u>	<u>2,846,318</u>
 FUND BALANCES:			
Reserved for debt service			
Reserved for economic development loans	235,137		
Unreserved:			
Designated for economic development	235,216		
Undesignated reported in:			
General fund	(86,654)		
Special revenue funds		419,913	44,929
Capital projects funds			
TOTAL FUND BALANCES	<u>383,699</u>	<u>419,913</u>	<u>44,929</u>
 TOTAL LIABILITIES AND FUND BALANCES	 <u>\$1,520,239</u>	 <u>\$ 425,338</u>	 <u>\$2,891,247</u>

EXHIBIT C

<u>Debt Service</u>	<u>Capital Projects</u>	<u>Total Nonmajor Governmental Funds</u>	<u>Total</u>
\$ 18,434		\$ 65,694	\$ 560,957
		2,832	14,364
		294,156	1,365,498
			7,129
			2,846,318
			7,762
	\$ 8	145	1,427
	300,000	29,264	235,137
			459,335
			26,463
			22,967
<u>\$ 18,434</u>	<u>\$ 300,008</u>	<u>\$392,091</u>	<u>\$5,547,357</u>
	\$2,923,905	\$ 22,243	\$2,976,207
	2,249,861		2,249,861
	366,442		366,442
		5,835	46,399
		294,156	1,365,498
			2,846,318
	<u>5,540,208</u>	<u>322,234</u>	<u>9,850,725</u>
\$ 18,434			18,434
			235,137
			235,216
			(86,654)
		69,857	534,699
	<u>(5,240,200)</u>		<u>(5,240,200)</u>
<u>18,434</u>	<u>(5,240,200)</u>	<u>69,857</u>	<u>(4,303,368)</u>
<u>\$ 18,434</u>	<u>\$ 300,008</u>	<u>\$392,091</u>	<u>\$5,547,357</u>

CITY OF SPIRIT LAKE
RECONCILIATION OF THE BALANCE SHEET -
GOVERNMENTAL FUNDS TO THE STATEMENT OF NET ASSETS
JUNE 30, 2007

TOTAL GOVERNMENTAL FUND BALANCES PER EXHIBIT C \$ (4,303,368)

AMOUNTS REPORTED FOR GOVERNMENTAL ACTIVITIES IN THE
STATEMENT OF NET ASSETS ARE DIFFERENT BECAUSE:

Capital assets used in governmental activities are not current financial resources and, therefore, are not reported in the funds. The cost of the assets is \$41,563,448 and the accumulated depreciation is \$5,678,465. 35,884,983

The internal service funds are used by the City to charge the cost of partial self funding the City's health insurance benefit plan to the individual funds and to fund future equipment purchases. A portion of the assets and liabilities of the internal service funds is included in governmental activities in the Statement of Net Assets. 192,931

Long-term liabilities, including bonds and other long-term debt payable, compensated absences, and accrued interest payable, are not due and payable within the current period and, therefore, are not reported as liabilities in the funds. (20,474,148)

NET ASSETS OF GOVERNMENTAL ACTIVITIES PER EXHIBIT A \$11,300,398

CITY OF SPIRIT LAKE
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2007

	<u>General</u>	<u>Local Option Sales Tax</u>	<u>Tax Increment Financing</u>
REVENUES:			
Property tax	\$1,166,160		
Tax increment financing			\$1,872,314
Other city taxes	192,704	\$ 795,608	
Licenses and permits	90,944		
Use of money and property	10,502	22,063	102,514
Intergovernmental	75,876		
Charges for services	19,308		
Miscellaneous	<u>203,203</u>		<u>1,580</u>
TOTAL REVENUES	<u>1,758,697</u>	<u>817,671</u>	<u>1,976,408</u>
EXPENDITURES:			
Public safety	794,437		
Public works	1,001,417		
Culture and recreation	333,483	120,000	
Community and economic development	296,226	2,124	
General government	292,753	8,945	2,048
Debt service		1,053,533	
Capital projects			
TOTAL EXPENDITURES	<u>2,718,316</u>	<u>1,184,602</u>	<u>2,048</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>(959,619)</u>	<u>(366,931)</u>	<u>1,974,360</u>
OTHER FINANCING SOURCES (USES):			
Operating transfers in	1,068,215		
Operating transfers out		(1,290,352)	(7,052,561)
Sale of fixed assets	43,000		
Good faith deposit (refund) on new bond issue			(43,000)
Bond proceeds		1,010,000	4,300,000
Bond discount		<u>(2,000)</u>	<u>(66,962)</u>
TOTAL OTHER FINANCING SOURCES (USES)	<u>1,111,215</u>	<u>(282,352)</u>	<u>(2,862,523)</u>
NET CHANGE IN FUND BALANCES - GOVERNMENTAL FUNDS	151,596	(649,283)	(888,163)
FUND BALANCES - BEGINNING OF YEAR	251,948	1,069,196	933,092
NET INCREASE IN RESERVES FOR PREPAID EXPENSES AND INVENTORY OF SUPPLIES	<u>(19,845)</u>		
FUND BALANCES - END OF YEAR	<u>\$ 383,699</u>	<u>\$ 419,913</u>	<u>\$ 44,929</u>

EXHIBIT E

<u>Debt Service</u>	<u>Capital Projects</u>	<u>Total Nonmajor Governmental Funds</u>	<u>Total</u>
		\$ 296,758	\$ 1,462,918
			1,872,314
			988,312
			90,944
\$ 1,852	\$ 109	2,009	139,049
	600,000	363,097	1,038,973
			19,308
		<u>22,355</u>	<u>227,138</u>
<u>1,852</u>	<u>600,109</u>	<u>684,219</u>	<u>5,838,956</u>
		147,532	941,969
		372,035	1,373,452
		106,921	560,404
		115,000	413,350
		13,353	317,099
2,041,267			3,094,800
	<u>7,293,003</u>		<u>7,293,003</u>
<u>2,041,267</u>	<u>7,293,003</u>	<u>754,841</u>	<u>13,994,077</u>
<u>(2,039,415)</u>	<u>(6,692,894)</u>	<u>(70,622)</u>	<u>(8,155,121)</u>
2,040,224	5,123,374	115,000	8,346,813
		(47,000)	(8,389,913)
			43,000
	53,900		10,900
			5,310,000
			(68,962)
<u>2,040,224</u>	<u>5,177,274</u>	<u>68,000</u>	<u>5,251,838</u>
809	(1,515,620)	(2,622)	(2,903,283)
17,625	(3,724,580)	72,479	(1,380,240)
			(19,845)
<u>\$ 18,434</u>	<u>\$(5,240,200)</u>	<u>\$ 69,857</u>	<u>\$(4,303,368)</u>

CITY OF SPIRIT LAKE
 RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
 AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS TO
 THE STATEMENT OF ACTIVITIES
 FOR THE YEAR ENDED JUNE 30, 2007

NET CHANGE IN FUND BALANCES - GOVERNMENTAL FUNDS PER EXHIBIT E	\$ (2,903,283)
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AMOUNTS REPORTED FOR GOVERNMENTAL ACTIVITIES IN
 THE STATEMENT OF ACTIVITIES ARE DIFFERENT BECAUSE:

Governmental funds report capital outlays as expenditures while governmental activities report depreciation expense to allocate those expenditures over the life of the assets. Capital expenditures exceeded depreciation expense for the year, as follows:

Expenditures for capital assets	\$8,065,196	
Transferred to water and sewer	(511,000)	
Depreciation expense	(804,368)	6,749,828

Prepaid expenses and inventory are not available to pay current period expenses and, therefore, are deferred in the funds. The change in prepaid expenses and inventory results in differences between the statements, as follows:

Inventories - end of year	26,463	
Prepaid expenses - end of year	22,967	
Inventories - beginning of year	(40,488)	
Prepaid expenses - beginning of year	(28,787)	(19,845)

Proceeds from issuing long-term liabilities provide current financial resources to the governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Assets. Repayment of long-term liabilities is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets. Current year new issues exceeded repayments, as follows:

New issues (net of water and sewer portion)	(5,310,000)	
Deposit on new issue	(53,900)	
Refund of prior year deposit on new issue	43,000	
Bond discount on new issues (net of sewer portion)	68,962	
Amortization of bond discount	(9,571)	
Repayments	2,240,000	(3,021,509)

CITY OF SPIRIT LAKE
 RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
 AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS TO
 THE STATEMENT OF ACTIVITIES - Continued
 FOR THE YEAR ENDED JUNE 30, 2007

Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditure in governmental funds. The change in these accrued expenses results in differences between the statements, as follows:

Compensated absences - end of year	\$ (57,457)	
Accrued interest payable - end of year	(66,547)	
Compensated absences - beginning of year	53,343	
Accrued interest payable - beginning of year	<u>64,275</u>	\$ (6,386)

The internal service funds are used by the City to charge the cost of partial self funding the City's health insurance benefit plan to the individual funds and to fund future equipment purchases. A portion of the change in net assets of the internal services funds is reported with governmental activities.

68,704

CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES
 PER EXHIBIT B

\$ 867,509

CITY OF SPIRIT LAKE
STATEMENT OF NET ASSETS - PROPRIETARY FUNDS
JUNE 30, 2007

ASSETS				
	Enterprise Funds			
	<u>Water</u>	<u>Sewer</u>	<u>Solid Waste</u>	<u>Total</u>
ASSETS				
Cash and pooled investments	\$ 575,645	\$1,155,220	\$ 699,893	\$ 2,430,758
Receivables - net of allowance for uncollectibles:				
Accounts and unbilled usage	212,192	36,976	47,720	296,888
Special assessments - current portion		1,652		1,652
Accrued interest	277	257	354	888
Due from other governments	534		511	1,045
Inventories	26,203		24,165	50,368
Prepaid expenses	17,180	950	4,114	22,244
Restricted assets:				
Customer deposits - cash	21,285			21,285
Revenue note sinking fund - cash	20,124			20,124
Special assessments - net of current portion		5,000		5,000
Loan fees - net of accumulated amortization	55,874			55,874
Capital assets - net of accumulated depreciation	<u>9,438,109</u>	<u>2,830,122</u>	<u>600,554</u>	<u>12,868,785</u>
TOTAL ASSETS	<u>10,367,423</u>	<u>4,030,177</u>	<u>1,377,311</u>	<u>15,774,911</u>
LIABILITIES:				
Accounts payable	170,460	26,691	35,409	232,560
Retainages payable	89,160			89,160
Due to other governments	13,830			13,830
Salaries payable	28,171	2,363	7,742	38,276
Accrued interest payable	12,602	2,221		14,823
Long-term liabilities:				
Portion of payable due within one year:				
Customer deposits	21,285			21,285
Compensated absences	37,776	970	7,899	46,645
General obligation bonds payable	1,000			1,000
Revenue notes payable	146,000			146,000
Portion of payable due after one year:				
Revenue notes payable	2,792,000			2,792,000
General obligation bonds payable - net of unamortized bond discount	<u>1,801,420</u>	<u>600,888</u>		<u>2,402,308</u>
TOTAL LIABILITIES	<u>5,113,704</u>	<u>633,133</u>	<u>51,050</u>	<u>5,797,887</u>
NET ASSETS:				
Invested in capital assets - net of related debt	4,722,436	2,623,898	600,554	7,946,888
Restricted for revenue note retirement	20,124			20,124
Unrestricted	<u>511,159</u>	<u>773,146</u>	<u>725,707</u>	<u>2,010,012</u>
TOTAL NET ASSETS	<u>\$ 5,253,719</u>	<u>\$3,397,044</u>	<u>\$1,326,261</u>	<u>\$ 9,977,024</u>

EXHIBIT G

<u>Internal Service Funds</u>		
<u>Self-Insurance</u>	<u>Equipment Revolving</u>	<u>Total</u>
\$107,082	\$298,396	\$405,478
	579	579
<u>107,082</u>	<u>298,975</u>	<u>406,057</u>
<u> </u>	<u> </u>	<u> </u>
<u>107,082</u>	<u>298,975</u>	<u>406,057</u>
<u>\$107,082</u>	<u>\$298,975</u>	<u>\$406,057</u>

CITY OF SPIRIT LAKE
RECONCILIATION OF STATEMENT OF NET ASSETS - PROPRIETARY FUNDS TO
THE STATEMENT OF NET ASSETS
JUNE 30, 2007

TOTAL NET ASSETS - ENTERPRISE FUNDS PER EXHIBIT G \$ 9,977,024

AMOUNTS REPORTED FOR BUSINESS TYPE ACTIVITIES IN THE
STATEMENT OF NET ASSETS ARE DIFFERENT BECAUSE:

The internal service funds are used by the City to charge the cost of partial self funding the City's health insurance benefit plan to the individual funds and to fund future equipment purchases. A portion of the assets and liabilities of the internal service funds is included in business type activities in the Statement of Net Assets. 213,126

TOTAL NET ASSETS - BUSINESS TYPE ACTIVITIES PER EXHIBIT A \$10,190,150

CITY OF SPIRIT LAKE
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS -
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2007

	Enterprise Funds			
	<u>Water</u>	<u>Sewer</u>	<u>Solid Waste</u>	<u>Total</u>
OPERATING REVENUES:				
Charges for services	\$1,482,521	\$ 243,265	\$ 861,394	\$2,587,180
Reimbursements from operating funds				
Miscellaneous	<u>3,881</u>	<u>865</u>	<u>2,428</u>	<u>7,174</u>
TOTAL OPERATING REVENUES	<u>1,486,402</u>	<u>244,130</u>	<u>863,822</u>	<u>2,594,354</u>
OPERATING EXPENSES:				
Business type activities:				
Cost of sales and services	1,194,280	110,991	675,996	1,981,267
Depreciation	214,931	66,169	57,812	338,912
Insurance charges and claims				
TOTAL OPERATING EXPENSES	<u>1,409,211</u>	<u>177,160</u>	<u>733,808</u>	<u>2,320,179</u>
OPERATING INCOME	<u>77,191</u>	<u>66,970</u>	<u>130,014</u>	<u>274,175</u>
NON-OPERATING REVENUES (EXPENSES):				
Interest income	7,465	5,015	6,706	19,186
Sale of miscellaneous equipment				
Intergovernmental:				
Reimbursements	9,408			9,408
Amortization of loan fees	(1,972)			(1,972)
Interest expense and loan service fees:				
General obligation bonds	(26,095)	(2,259)		(28,354)
Revenue notes	<u>(99,715)</u>			<u>(99,715)</u>
TOTAL NON-OPERATING REVENUES (EXPENSES)	<u>(110,909)</u>	<u>2,756</u>	<u>6,706</u>	<u>(101,447)</u>
NET INCOME (LOSS) BEFORE TRANSFERS	<u>(33,718)</u>	<u>69,726</u>	<u>136,720</u>	<u>172,728</u>
Operating transfers in				
Operating transfers out	(29,950)	(17,280)	(27,170)	(74,400)
Capital assets transferred in	194,000	317,000		511,000
TOTAL TRANSFERS - NET	<u>164,050</u>	<u>299,720</u>	<u>(27,170)</u>	<u>436,600</u>
CHANGE IN NET ASSETS	130,332	369,446	109,550	609,328
NET ASSETS - BEGINNING OF YEAR	<u>5,123,387</u>	<u>3,027,598</u>	<u>1,216,711</u>	<u>9,367,696</u>
NET ASSETS - END OF YEAR	<u>\$5,253,719</u>	<u>\$3,397,044</u>	<u>\$1,326,261</u>	<u>\$9,977,024</u>

EXHIBIT I

Internal Service Funds		
<u>Self-Insurance</u>	<u>Equipment Revolving</u>	<u>Total</u>
\$ 54,034		\$ 54,034
134		134
<u>54,168</u>	<u> </u>	<u>54,168</u>
21,133		21,133
<u>21,133</u>	<u> </u>	<u>21,133</u>
33,035		33,035
<u>33,035</u>	<u> </u>	<u>33,035</u>
	\$ 8,036	8,036
	1,300	1,300
<u> </u>	<u> </u>	<u> </u>
<u> </u>	9,336	<u>9,336</u>
33,035	9,336	42,371
	117,500	117,500
<u> </u>	<u>117,500</u>	<u>117,500</u>
33,035	126,836	159,871
<u>74,047</u>	<u>172,139</u>	<u>246,186</u>
<u>\$107,082</u>	<u>\$298,975</u>	<u>\$406,057</u>

CITY OF SPIRIT LAKE
RECONCILIATION OF STATEMENT OF REVENUE, EXPENSES, AND CHANGES IN
NET ASSETS - PROPRIETARY FUNDS TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2007

TOTAL CHANGE IN NET ASSETS - ENTERPRISE FUNDS PER EXHIBIT I \$609,328

AMOUNTS REPORTED FOR BUSINESS TYPE ACTIVITIES IN THE
STATEMENT OF ACTIVITIES ARE DIFFERENT BECAUSE:

The internal service funds are used by the City to charge the cost of partial self
funding the City's health insurance benefit plan to the individual funds and to fund
future equipment purchases. A portion of the change in net assets of the internal
service funds is reported with business type activities..... 91,167

CHANGE IN NET ASSETS OF BUSINESS TYPE ACTIVITIES PER EXHIBIT B \$700,495

CITY OF SPIRIT LAKE
STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2007

	Enterprise Funds			
	<u>Water</u>	<u>Sewer</u>	<u>Solid Waste</u>	<u>Total</u>
CASH FLOWS FROM				
OPERATING ACTIVITIES:				
Cash received from customers	\$1,549,816	\$ 239,550	\$ 842,541	\$2,631,907
Other operating receipts	79,938	865	3,537	84,340
Cash payments from operating funds				
Cash payments to employees for services	(543,518)	(60,233)	(193,795)	(797,546)
Cash payments for goods and services	(776,688)	(49,919)	(480,813)	(1,307,420)
NET CASH PROVIDED BY				
OPERATING ACTIVITIES	<u>309,548</u>	<u>130,263</u>	<u>171,470</u>	<u>611,281</u>
CASH FLOWS FROM NONCAPITAL				
FINANCING ACTIVITIES:				
Loans from (to) other funds	(36,657)	36,657		
Operating transfers in				
Operating transfers out	(62,786)	(23,049)	(27,170)	(113,005)
NET CASH PROVIDED BY				
(USED FOR) NONCAPITAL				
FINANCING ACTIVITIES	<u>(99,443)</u>	<u>13,608</u>	<u>(27,170)</u>	<u>(113,005)</u>
CASH FLOWS FROM CAPITAL AND				
RELATED FINANCING ACTIVITIES:				
Acquisition of fixed assets	(1,166,929)	(200,450)	(34,837)	(1,402,216)
General obligation bond proceeds	1,778,450	600,850		2,379,300
Reimbursement from other governments ..	9,408			9,408
Special assessments received		1,662		1,662
Sale of miscellaneous equipment				
Principal paid on revenue notes	(142,000)			(142,000)
Interest and loan service fees paid				
on revenue notes	(100,100)			(100,100)
NET CASH PROVIDED BY				
(USED FOR) CAPITAL AND				
RELATED FINANCING ACTIVITIES	<u>378,829</u>	<u>402,062</u>	<u>(34,837)</u>	<u>746,054</u>
CASH FLOWS FROM INVESTING				
ACTIVITIES:				
Interest on investments	7,885	4,735	6,801	19,421
Interest on special assessments		758		758
NET CASH PROVIDED BY				
INVESTING ACTIVITIES	<u>7,885</u>	<u>5,493</u>	<u>6,801</u>	<u>20,179</u>
NET INCREASE IN CASH AND				
CASH EQUIVALENTS	596,819	551,426	116,264	1,264,509
CASH AND CASH EQUIVALENTS -				
BEGINNING OF YEAR	<u>20,235</u>	<u>603,794</u>	<u>583,629</u>	<u>1,207,658</u>
CASH AND CASH EQUIVALENTS -				
END OF YEAR	<u>\$ 617,054</u>	<u>\$1,155,220</u>	<u>\$ 699,893</u>	<u>\$2,472,167</u>

EXHIBIT K

<u>Internal Service Funds</u>		
<u>Self-Insurance</u>	<u>Equipment Revolving</u>	<u>Total</u>
\$ 134		\$ 134
54,034		54,034
<u>(25,031)</u>	<u> </u>	<u>(25,031)</u>
<u>29,137</u>	<u> </u>	<u>29,137</u>
	\$117,500	117,500
<u> </u>	<u> </u>	<u> </u>
	<u>117,500</u>	<u>117,500</u>
	1,300	1,300
<u> </u>	<u> </u>	<u> </u>
	<u>1,300</u>	<u>1,300</u>
	8,130	8,130
<u> </u>	<u> </u>	<u> </u>
	<u>8,130</u>	<u>8,130</u>
29,137	126,930	156,067
<u>77,945</u>	<u>171,466</u>	<u>249,411</u>
<u>\$107,082</u>	<u>\$298,396</u>	<u>\$405,478</u>

CITY OF SPIRIT LAKE
STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS - Continued
FOR THE YEAR ENDED JUNE 30, 2007

	Enterprise Funds			
	<u>Water</u>	<u>Sewer</u>	<u>Solid Waste</u>	<u>Total</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:				
OPERATING INCOME	<u>\$ 77,191</u>	<u>\$ 66,970</u>	<u>\$130,014</u>	<u>\$ 274,175</u>
ADJUSTMENTS TO RECONCILE OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:				
Depreciation	214,931	66,169	57,812	338,912
Prior year construction in progress expensed	26,550			26,550
Changes in assets and liabilities:				
(Increase) in accounts receivable and unbilled usage	(15,699)	(3,715)	(18,821)	(38,235)
(Increase) in due from other governments	(534)		(511)	(1,045)
(Increase) in inventories	(10,329)		(3,320)	(13,649)
Decrease in prepaids	1,843	175	1,415	3,433
Increase (decrease) in accounts payable	(6,771)	(251)	2,212	(4,810)
(Decrease) in medical claims payable ...				
Increase in due to other governments ...	1,524			1,524
Increase (decrease) in salaries payable	7,862	(55)	(1,079)	6,728
Increase in customer deposits	1,050			1,050
Increase in compensated absences	<u>11,930</u>	<u>970</u>	<u>3,748</u>	<u>16,648</u>
TOTAL ADJUSTMENTS	<u>232,357</u>	<u>63,293</u>	<u>41,456</u>	<u>337,106</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$309,548</u>	<u>\$ 130,263</u>	<u>\$171,470</u>	<u>\$ 611,281</u>
RECONCILIATION OF CASH AND CASH EQUIVALENTS AT YEAR END TO SPECIFIC ASSETS INCLUDED ON THE STATEMENT OF NET ASSETS				
Cash and pooled investments	\$575,645	\$1,155,220	\$699,893	\$2,430,758
Restricted assets - cash:				
Customer deposits	21,285			21,285
Revenue note sinking fund	<u>20,124</u>			<u>20,124</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$617,054</u>	<u>\$1,155,220</u>	<u>\$699,893</u>	<u>\$2,472,167</u>
NON-CASH CAPITAL AND RELATED FINANCING ACTIVITIES:				
Two water and sewer projects were paid by a governmental fund type and transferred to the enterprise funds.				
Cost transferred in.	<u>\$194,000</u>	<u>\$ 317,000</u>	<u>\$</u>	<u>\$ 511,000</u>

EXHIBIT K

Internal Service Funds		
<u>Self-Insurance</u>	<u>Equipment Revolving</u>	<u>Total</u>
<u>\$ 33,035</u>	<u> </u>	<u>\$ 33,035</u>
 (3,898)		(3,898)
<u> (3,898)</u>	<u> </u>	<u> (3,898)</u>
<u>\$ 29,137</u>	<u>\$ </u>	<u>\$ 29,137</u>
 \$107,082	\$298,396	\$405,478
<u> </u>	<u> </u>	<u> </u>
<u>\$107,082</u>	<u>\$298,396</u>	<u>\$405,478</u>
 \$	\$	\$

CITY OF SPIRIT LAKE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Spirit Lake, Iowa is a political subdivision of the State of Iowa located in Dickinson County. It was first incorporated in 1879 and operates under the Home Rule provisions of the constitution of Iowa. The City operates under the Mayor-Council-Clerk/Administrator form of government with the Mayor and Council Members elected on a non-partisan basis. The City of Spirit Lake provides numerous services to citizens, including general government, public safety, streets, sanitation and health, cultural and park facilities and social services. It also operates the water, sewer, and solid waste utilities.

The financial statements of the City of Spirit Lake have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the government's accounting policies are described below:

A. Reporting Entity

For financial reporting purposes, the City has included all funds, organizations, account groups, agencies, boards, commissions and authorities. The City has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the City. It was determined that the City has no component units.

Jointly Governed Organizations

The City also participates in several jointly governed organizations that provide goods or services to the citizenry of the City but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. City officials are members of the following boards and commissions: Drainage District #22, Spirit Lake Community Fire Department, Dickinson County Airport Authority, Dickinson County Emergency Management Commission, Dickinson County E911 Service Board, Dickinson County Assessor's Conference Board, and various other organizations.

B. Basis of Presentation

Government-wide Financial Statements - The Statement of Net Assets and the Statement of Activities report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which are supported by property tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for services.

The Statement of Net Assets presents the City's nonfiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

Invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes and other debt attributable to the acquisition, construction, or improvement of those assets.

Restricted net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation. Additionally, the City has reported economic development loans as restricted net assets.

Unrestricted net assets consist of net assets not meeting the definition of the two preceding categories. Unrestricted net assets often have constraints on resources imposed by management which can be removed or modified.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those clearly identifiable with a specific function. Program revenues include (1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and (2) grants and contributions restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements - Separate financial statements are provided for governmental and proprietary funds. Major individual governmental and proprietary funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as nonmajor governmental funds.

The City reports the following major governmental funds:

The General Fund is the general operating fund of the City. All general tax revenues and other revenues not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating expenditures, the fixed charges, and the capital improvement costs not paid from other funds.

Special Revenue:

The Tax Increment Financing Revenues Fund is used to account for revenues from the tax authorized by ordinance in the urban renewal district and used to pay the principal and interest on the general obligation capital loan notes and other indebtedness incurred for urban renewal redevelopment projects.

The Local Option Sales Tax Fund - is used to account for the revenues from the tax authorized by referendum and used for property tax relief and capital improvements.

The Debt Service Fund is used to account for the payment of interest and principal on the City's general long-term debt.

The Capital Projects Fund is used to account for all resources used in the acquisition and construction of capital facilities.

The City reports the following major proprietary funds:

Enterprise:

The Water Fund is used to account for the operation and maintenance of the City's water system.

The Sewer Fund is used to account for the operation and maintenance of the City's wastewater treatment and sanitary sewer system.

The Solid Waste Fund is used to account for the operation and maintenance of the City's solid waste collection activities.

Additionally, the City reports the following funds:

Proprietary Funds - The Internal Service Funds are utilized to account for the financing of goods or services purchased by one department of the City and provided to other departments or agencies on a cost reimbursement basis.

C. Measurement Focus and Basis of Accounting

The government-wide and proprietary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax is recognized as revenue in the year for which it is levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been satisfied.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days after year end.

Property tax, local option sales tax, intergovernmental revenues (shared revenues, grants, and reimbursements from other governments) and interest are considered to be susceptible to accrual. All other revenue items are considered to be measurable and available only when cash is received by the City.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, principal and interest on long-term debt, claims and judgments and compensated absences are recognized as expenditures only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt are reported as other financing sources.

Under terms of grant agreements, the City funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the City's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants and then by general revenues.

The proprietary funds of the City apply all applicable GASB pronouncements, as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting

Standards Board Statements and Interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins of the Committee on Accounting Procedure.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the City's Proprietary Funds are charges to customers for sales and services. Operating expenses for Proprietary Funds include the cost of sales and services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

The City maintains its financial records on the cash basis. The financial statements of the City are prepared by making memorandum adjusting entries to the cash basis financial records.

D. Assets, Liabilities and Fund Equity

The following accounting policies are followed in preparing the financial statements:

Cash, Pooled Investments, and Cash Equivalents - The cash balances of most City funds are pooled and invested. Interest earned on investments is recorded in the General Fund unless otherwise provided by law. Investments consist of interest-bearing cash accounts and certificates of deposit.

For purposes of the statement of cash flows, all short-term cash investments that are highly liquid (including restricted assets) are considered to be cash equivalents.

Property Tax Receivable, Including Tax Increment Financing - Property tax, including tax increment financing, in governmental funds is accounted for using the modified accrual basis of accounting.

Property tax receivable is recognized in these funds on the levy or lien date, which is the date the tax asking is certified by the City to the County Board of Supervisors. Current year property tax receivables represent taxes collected by the County but not remitted to the City at June 30, 2007 and unpaid taxes. The succeeding year property tax receivables represent taxes certified by the City to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the City is required to certify its budget to the County Auditor by March 15 of each year for the subsequent fiscal year. However, by statute, the tax asking and budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding year property tax receivables have been recorded, the related revenue is deferred in both the government-wide and fund financial statements and will not be recognized as revenue until the year for which it is levied.

Property tax revenues recognized in these funds become due and collectible in September and March of the current fiscal year with a 1½% per month penalty for delinquent payments; is based on January 1, 2005 assessed property valuations; is for the tax accrual period July 1, 2006 through June 30, 2007 and reflects tax asking contained in the budget certified to the County Board of Supervisors in March 2006.

Accounts and Unbilled Usage Receivable - Accounts receivable are recorded in the enterprise funds at the time the service is billed. Unbilled usage for service consumed between periodic scheduled billing dates is estimated and is recognized as revenue in the period in which the service is provided.

Special Assessments Receivable - Special assessments receivable represents the amounts due from individuals for work done which benefits their property. These assessments are payable by individuals in not less than ten nor more than twenty annual installments. Each annual installment with interest on the unpaid balance is due on September 30 and is subject to the same interest and penalties as other tax.

Due From Other Governments - Due from other governments represents various shared revenues, grants, and reimbursements due from other governments. Shared revenues are recognized during the period received by the collecting authority, the State of Iowa.

Inventories - Proprietary Fund inventories of materials and supplies are valued at cost, using the first-in, first-out (FIFO) method. Inventories in the governmental funds are stated at cost and are recorded as an expenditure at the time of purchase. Reported inventories in the governmental funds are equally offset by a fund balance reserve, which indicates they are unavailable for appropriation.

Prepaid Expenses - Prepaid expenses have been recorded for governmental and proprietary funds. Prepaid expenses in the governmental funds have been offset by a fund balance reserve to indicate they are unavailable for appropriation.

Restricted Assets - Restricted assets include customer deposits restricted for application to unpaid customer accounts or for refund to customers.

Capital Assets - Capital assets, which include property, equipment and vehicles and infrastructure assets (e.g. roads, bridges, curbs, gutters, sidewalks, and similar items which are immovable and of value only to the government) are reported in the applicable governmental or business type activities columns in the government-wide Statement of Net Assets. Capital assets are recorded at historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repair that do not add to the value of the asset or materially extend asset lives are not capitalized. Reportable capital assets are defined by the City as assets with initial, individual costs in excess of \$5,000 and estimated useful lives in excess of four years.

Capital assets of the City are depreciated using the straight-line method over the following estimated useful lives:

<u>Asset Class</u>	<u>Estimated Useful Lives (In Years)</u>
Buildings	40 - 60 years
Improvements other than buildings	10 - 40 years
Vehicles	5 - 10 years
Equipment	5 - 20 years
Infrastructure	15 - 40 years

Deferred Revenue - Although certain revenues are measurable, they are not available. Available means collectible within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue in the governmental fund financial statements represents the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue consists of delinquent property tax receivables, special assessments receivable, and other receivables not collected within sixty days after year end.

Deferred revenue in the Statement of Net Assets consists of succeeding year property tax and tax increment financing receivables that will not be recognized as revenue until the year for which they are levied.

Compensated Absences - City employees accumulate a limited amount of earned but unused vacation and sick leave hours for subsequent use or for payment upon termination, death, or retirement. A liability is recorded when incurred in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in governmental fund financial statements only for employees that have resigned or retired. The compensated absences liability has been computed based on rates of pay in effect at June 30, 2007. The compensated absences liability attributable to the governmental activities will be paid primarily by the General Fund.

Long-term Liabilities - In the government-wide and proprietary fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental or business type activities column in the Statement of Net Assets and the proprietary fund Statement of Net Assets.

In the governmental fund financial statements, the face amount of debt issued is reported as other financing sources. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Fund Equity - In the governmental fund financial statements, reservations of fund balance are reported for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

2. CASH AND INVESTMENTS

The City's demand deposits, savings accounts, and certificates of deposit at June 30, 2007 were entirely covered by Federal depository insurance or by a multiple financial institution collateral pool in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the members of the pool to insure there will be no loss of public funds.

The City is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the City Council; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

3. CHECKS WRITTEN IN EXCESS OF AVAILABLE CASH

During the year, the capital projects fund had disbursements which exceeded receipts and the funds' beginning cash balances. In effect, the City borrowed the cash from the other funds. A summary of the City's cash and pooled investments at June 30, 2007 is as follows:

	Governmental Funds	Proprietary Funds - Enterprise	Proprietary Funds - Internal Service	Total
Funds with positive cash/ investment balances	\$ 560,957	\$2,430,758	\$ 405,478	\$3,397,193
Less checks written in excess of available cash - capital projects fund	<u>(2,249,861)</u>	<u> </u>	<u> </u>	<u>(2,249,861)</u>
Net unrestricted cash and pooled investments	(1,688,904)	2,430,758	405,478	1,147,332
Restricted cash:				
Customer deposits		21,285		21,285
Revenue note sinking fund ...	<u> </u>	<u>20,124</u>	<u> </u>	<u>20,124</u>
Total net cash and pooled investments at June 30, 2007	<u>\$(1,688,904)</u>	<u>\$2,472,167</u>	<u>\$ 405,478</u>	<u>\$1,188,741</u>

4. ALLOWANCES FOR COLLECTION LOSSES

Allowances have been made for estimated collection losses on the following receivable amounts:

	Gross Receivables	Allowance for Collection Losses	Net Receivables
Accounts and unbilled usage:			
General Fund	\$ 8,480	\$ 718	\$ 7,762
Enterprise Funds:			
Water	215,186	2,994	212,192
Sewer	36,976		36,976
Solid waste	<u>62,919</u>	<u>15,199</u>	<u>47,720</u>
TOTAL	<u>\$323,561</u>	<u>\$ 18,911</u>	<u>\$304,650</u>

5. CAPITAL ASSETS

Capital assets activity for the year ended June 30, 2007 was as follows:

	Balance Beginning of Year	Additions	Deletions	Transfers In (Out)	Balance End of Year
GOVERNMENTAL ACTIVITIES:					
COST OF CAPITAL ASSETS:					
Capital assets not being depreciated:					
Construction in progress	\$ 4,752,165	\$6,003,140			\$10,755,305
Land	412,903				412,903
Total capital assets not being depreciated	5,165,068	6,003,140			11,168,208
Capital assets being depreciated					
Buildings	1,477,935				1,477,935
Improvements	404,218	26,320			430,538
Equipment and vehicles	2,729,002	765,424	\$ (58,963)		3,435,463
Infrastructure	24,291,992	1,270,312		\$(511,000)	25,051,304
Total capital assets being depreciated	28,903,147	2,062,056	(58,963)	(511,000)	30,395,240
TOTAL COST OF CAPITAL ASSETS	34,068,215	8,065,196	(58,963)	(511,000)	41,563,448
ACCUMULATED DEPRECIATION:					
Buildings	395,847	32,489			428,336
Improvements	266,126	9,429			275,555
Equipment and vehicles	1,199,503	250,680	(58,963)		1,391,220
Infrastructure	3,071,584	511,770			3,583,354
TOTAL ACCUMULATED DEPRECIATION	4,933,060	804,368	(58,963)		5,678,465
GOVERNMENTAL ACTIVITIES CAPITAL ASSETS - NET	\$29,135,155	\$7,260,828	\$	\$(511,000)	\$35,884,983

	Balance Beginning of Year	Additions	Deletions	Transfers In (Out)	Balance End of Year
BUSINESS TYPE ACTIVITIES:					
COST OF CAPITAL ASSETS:					
Capital assets not being depreciated:					
Construction in progress	\$ 643,360	\$1,511,958			\$ 2,155,318
Land	96,859				96,859
Total capital assets not being depreciated	740,219	1,511,958			2,252,177
Capital assets being depreciated:					
Buildings	5,700,897				5,700,897
Improvements	113,651				113,651
Water towers	891,356				891,356
Equipment and vehicles	1,458,551	44,237			1,502,788
Infrastructure	5,355,337	14,376		\$511,000	5,880,713
Total capital assets being depreciated	13,519,792	58,613		511,000	14,089,405
TOTAL COST OF CAPITAL ASSETS	14,260,011	1,570,571		511,000	16,341,582
ACCUMULATED DEPRECIATION:					
Buildings	1,143,046	112,641			1,255,687
Improvements	95,574	1,695			97,269
Water towers	340,518	17,827			358,345
Equipment and vehicles	639,728	94,099			733,827
Infrastructure	915,019	112,650			1,027,669
TOTAL ACCUMULATED DEPRECIATION	3,133,885	338,912			3,472,797
BUSINESS TYPE CAPITAL ASSETS - NET	\$11,126,126	\$1,231,659	\$	\$511,000	\$12,868,785
COST OF LOAN FEES	\$ 37,640	\$ 23,970			\$ 61,610
LESS: Accumulated amortization	3,764	1,972			5,736
LOAN FEES - NET	\$ 33,876	\$ 21,998	\$	\$	\$ 55,874

Depreciation was charged to functions of the government as follows:

Governmental Activities:

Public safety	\$ 41,150
Public works	654,132
Culture and recreation	104,627
General government	4,459
Total Governmental Activities	\$ 804,368

Business Type Activities:

Water	\$ 214,931
Sewer	66,169
Solid waste	57,812
Total Business Type Activities	\$ 338,912

6. ECONOMIC DEVELOPMENT LOANS

The City has loaned money for economic development purposes. Following is a summary of those loans:

Forgivable loan to a local business. The loan is interest free and is forgivable ratably over 10 years if certain conditions are met. During the year ended June 30, 2007, the City forgave \$41,863 of this loan.	\$ 78,137
Forgivable loan to a local business. The loan is interest-free and forgivable ratably over five years if certain conditions are met. During the year ended June 30, 2007, the City forgave \$6,000 of this loan.	7,000
Iowa Nonentitlement Community Development Block Grant. Economic Development set aside loan to a local business. The loan is interest-free and is payable in quarterly installments of \$12,500 over the remaining three-year period.	<u>150,000</u>
TOTAL	<u>\$235,137</u>

7. LONG-TERM LIABILITIES

A summary of changes in long-term liabilities for the year ended June 30, 2007 is as follows:

	<u>Date of Issue</u>	<u>Interest Rates</u>	<u>Amount of Original Issue</u>	<u>Final Due Date</u>
GOVERNMENTAL ACTIVITIES:				
GENERAL OBLIGATION BONDS/NOTES:				
Taxable issue	9-01-99	7.20 - 7.50%	\$ 400,000	6-1-2011
General obligation urban renewal, Series 2001A	10-01-01	3.65 - 4.00%	4,000,000	6-1-2012
General obligation bonds, Series 2001B	10-01-01	4.00 - 4.40%	470,000	6-1-2012
General obligation refunding bonds ...	6-01-02	3.80 - 4.35%	3,060,000	6-1-2012
Essential corporate purpose	6-01-03	3.55 - 4.00%	4,200,000	6-1-2023
General obligation capital loan notes .	10-01-04	2.70 - 4.45%	2,280,000	6-1-2024
General obligation refunding bonds ...	4-01-05	2.75 - 3.35%	1,145,000	6-1-2012
General obligation annual appropriation bonds	8-01-05	3.50 - 4.35%	5,000,000	6-1-2025
General obligation urban renewal annual appropriation bonds	7-01-06	4.10 - 4.40%	4,300,000	6-1-2026
General obligation annual appropriation capital loan notes	6-11-07	4.40%	1,010,000	6-11-2018
General obligation bonds, Series 2007C (sewer)	6-01-07	4.25 - 4.60%	610,000	6-1-2027
General obligation capital loan note (water)	12-07-06	3.25%	1,802,420	6-1-2022
TOTAL				
Less reported in business-type activities:				
Water				
Sewer				
TOTAL GENERAL OBLIGATION BONDS/NOTES REPORTED IN GOVERNMENTAL ACTIVITIES				
Less unamortized bond discount				
NET GENERAL OBLIGATION BONDS/NOTES REPORTED IN GOVERNMENTAL ACTIVITIES				
LOCAL OPTION SALES TAX				
REVENUE BONDS	3-23-06		1,000,000	
COMPENSATED ABSENCES				
TOTAL GOVERNMENTAL ACTIVITIES				

Balance Beginning of Year	Increases	Decreases	Balance End of Year	Due Within One Year
\$ 225,000		\$ 40,000	\$ 185,000	\$ 45,000
2,175,000		625,000	1,550,000	550,000
230,000		35,000	195,000	35,000
1,340,000		275,000	1,065,000	200,000
4,200,000			4,200,000	
2,245,000		95,000	2,150,000	95,000
970,000		170,000	800,000	160,000
5,000,000			5,000,000	
	\$4,300,000		4,300,000	
	1,010,000		1,010,000	
	610,000		610,000	
	<u>1,802,420</u>		<u>1,802,420</u>	<u>1,000</u>
16,385,000	7,722,420	1,240,000	22,867,420	1,086,000
	(1,802,420)		(1,802,420)	(1,000)
	<u>(610,000)</u>		<u>(610,000)</u>	
16,385,000	5,310,000	1,240,000	20,455,000	1,085,000
<u>(99,365)</u>	<u>(68,962)</u>	<u>(9,571)</u>	<u>(158,756)</u>	
16,285,635	5,241,038	1,230,429	20,296,244	1,085,000
1,000,000		1,000,000		
<u>60,196</u>		<u>2,739</u>	<u>57,457</u>	<u>57,457</u>
<u>\$17,345,831</u>	<u>\$5,241,038</u>	<u>\$2,233,168</u>	<u>\$20,353,701</u>	<u>\$1,142,457</u>

	<u>Date of Issue</u>	<u>Interest Rates</u>	<u>Amount of Original Issue</u>	<u>Final Due Date</u>
BUSINESS TYPE ACTIVITIES:				
WATER PORTION OF GENERAL OBLIGATION NOTES				
SEWER PORTION OF GENERAL OBLIGATION BONDS				
TOTAL GENERAL OBLIGATION BONDS/NOTES REPORTING IN BUSINESS-TYPE ACTIVITIES				
Less unamortized bond discount				
NET GENERAL OBLIGATION BONDS/NOTES REPORTING IN BUSINESS-TYPE ACTIVITIES				
REVENUE NOTES:				
Water revenue capital loan notes, Series 2003	5-20-03	3.25%	\$3,501,000	6-1-2023
CUSTOMER DEPOSITS				
COMPENSATED ABSENCES				
TOTAL BUSINESS TYPE ACTIVITIES				

Balance Beginning of Year	Increases	Decreases	Balance End of Year	Due Within One Year
	\$1,802,420		\$1,802,420	\$ 1,000
<u> </u>	<u>610,000</u>	<u> </u>	<u>610,000</u>	<u> </u>
	2,412,420		2,412,420	1,000
<u> </u>	<u>(9,150)</u>	<u>\$ (38)</u>	<u>(9,112)</u>	<u> </u>
	2,403,270	(38)	2,403,308	1,000
\$3,080,000		142,000	2,938,000	146,000
20,235	1,050		21,285	21,285
<u>29,997</u>	<u>16,648</u>	<u> </u>	<u>46,645</u>	<u>46,645</u>
<u>\$3,130,232</u>	<u>\$2,420,968</u>	<u>\$ 141,962</u>	<u>\$5,409,238</u>	<u>\$ 214,930</u>

General Obligation Bonds/Notes

General obligation bonds/notes to be serviced by the Debt Service Fund totaled \$22,867,420 at June 30, 2007.

A majority of the general obligation bonds are anticipated to be repaid from tax increment financing revenues, local option sales tax funds, and the water and sewer enterprise funds. In compliance with statutory requirements, any payments from other funds are recorded as reimbursements to the Debt Service Fund in the City's accounting records. General obligation bonds/notes bear interest with rates ranging from 2.70% to 7.5%.

Subsequent to June 30, 2007, the City issued \$5,390,000 of general obligation urban renewal annual appropriation bonds. During June 2007, the City received a good faith deposit on the bonds for \$53,900 which is shown as a liability on the Statement of Net Assets.

Revenue Notes

The City has water revenue capital loan notes issued under a loan agreement between the City of Spirit Lake, the Iowa Finance Authority, the Iowa Department of Natural Resources, and Wells Fargo Bank Iowa, N.A. The notes bear interest at 3.25% including a .25% loan service fee.

The resolution providing for the issuance of the water revenue capital loan notes include the following provisions:

- (A) The notes will only be redeemed from the future earnings of the enterprise activity and the note holders hold a lien on the future earnings of the funds.
- (B) Sufficient monthly transfers shall be made into a separate water revenue sinking account for the purpose of making the principal and interest payments when due.
- (C) User rates shall be established at a level which produces and maintains net revenues at a level not less than 110% of the amount of principal and interest on the note falling due in the same year.

During the year ended June 30, 2007, the City is in compliance with the revenue note resolution.

A summary of the City's long-term debt maturities is as follows:

Year Ending June 30,	<u>Governmental Activities</u>			<u>Business-Type Activities</u>		
	<u>General Obligation Bonds/Notes</u>			<u>General Obligation Bonds/Notes</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2008	\$ 1,085,000	\$ 812,139	\$ 1,897,139	\$ 1,000	\$ 85,226	\$ 86,226
2009	1,160,000	774,094	1,934,094	149,000	85,194	234,194
2010	1,185,000	730,349	1,915,349	150,000	80,151	230,151
2011	1,200,000	684,634	1,884,634	155,000	75,076	230,076
2012	1,370,000	636,914	2,006,914	26,000	69,789	95,789
2013	885,000	584,666	1,469,666	188,000	68,694	256,694
2014	865,000	552,146	1,417,146	188,000	62,334	250,334
2015	1,230,000	519,941	1,749,941	165,000	55,974	220,974
2016	1,240,000	472,554	1,712,554	170,000	50,361	220,361
2017	1,245,000	424,331	1,669,331	170,000	44,536	214,536
2018	1,255,000	375,309	1,630,309	170,000	38,711	208,711
2019	1,145,000	325,069	1,470,069	175,000	32,886	207,886
2020	1,150,000	279,066	1,429,066	175,000	26,831	201,831
2021	1,155,000	232,071	1,387,071	175,000	20,759	195,759
2022	1,160,000	184,074	1,344,074	145,420	14,685	160,105
2023	1,160,000	135,281	1,295,281	40,000	9,500	49,500
2024	890,000	85,997	975,997	40,000	7,740	47,740
2025	720,000	47,118	767,118	40,000	5,940	45,940
2026	355,000	15,620	370,620	45,000	4,140	49,140
2027				45,000	2,070	47,070
Total	<u>\$20,455,000</u>	<u>\$7,871,373</u>	<u>\$28,326,373</u>	<u>\$2,412,420</u>	<u>\$840,597</u>	<u>\$3,253,017</u>

Year Ending June 30,	<u>Business-Type Activities</u>					
	<u>Water Revenue Capital Loan Notes</u>			<u>Total Business-Type Activities</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2008	\$ 146,000	\$ 95,485	\$ 241,485	\$ 147,000	\$ 180,711	\$ 327,711
2009	150,000	90,740	240,740	299,000	175,934	474,934
2010	155,000	85,865	240,865	305,000	166,016	471,016
2011	159,000	80,827	239,827	314,000	155,903	469,903
2012	164,000	75,660	239,660	190,000	145,449	335,449
2013	169,000	70,330	239,330	357,000	139,024	496,024
2014	174,000	64,838	238,838	362,000	127,172	489,172
2015	179,000	59,182	238,182	344,000	115,156	459,156
2016	185,000	53,365	238,365	355,000	103,726	458,726
2017	190,000	47,353	237,353	360,000	91,889	451,889
2018	196,000	41,178	237,178	366,000	79,889	445,889
2019	202,000	34,807	236,807	377,000	67,693	444,693
2020	208,000	28,243	236,243	383,000	55,074	438,074
2021	214,000	21,483	235,483	389,000	42,242	431,242
2022	220,000	14,527	234,527	365,420	29,212	394,632
2023	227,000	7,377	234,377	267,000	16,877	283,877
2024				40,000	7,740	47,740
2025				40,000	5,940	45,940
2026				45,000	4,140	49,140
2027				45,000	2,070	47,070
Total	<u>\$ 2,938,000</u>	<u>\$ 871,260</u>	<u>\$ 3,809,260</u>	<u>\$5,350,420</u>	<u>\$1,711,857</u>	<u>\$7,062,277</u>

8. INTERFUND TRANSFERS

The detail of interfund transfers for the year ended June 30, 2007 is as follows:

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
General	Special Revenue:	
	Local option sales tax	\$1,064,315
	Proprietary:	
	Enterprise:	
	Water	1,950
	Sewer	780
	Solid waste	1,170
		<u>1,068,215</u>
Special Revenue:		
LMI	Special Revenue:	
	Tax increment financing	<u>115,000</u>
Debt Service	Special Revenue:	
	Local option sales tax	226,037
	Tax increment financing	<u>1,814,187</u>
		<u>2,040,224</u>
Capital Projects	Special Revenue:	
	Tax increment financing	<u>5,123,374</u>
Proprietary:		
Internal service:		
Equipment revolving	Special Revenue:	
	Road use tax	47,000
	Proprietary:	
	Enterprise:	
	Water	28,000
	Sewer	16,500
	Solid waste	26,000
		<u>117,500</u>
TOTAL OPERATING TRANSFERS		<u>\$8,464,313</u>

9. PENSION AND RETIREMENT BENEFITS

The City contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, PO Box 9117, Des Moines, IA 50306-9117.

Most regular plan members are required to contribute 3.70% of their annual salary and the City is required to contribute 5.75% of annual covered salaries. Certain employees in special risk occupations and the City contribute an actuarially determined contribution rate. Contribution requirements are established by State statute. The City's contributions to IPERS for the years ended June 30, 2007, 2006, and 2005 were \$116,912, \$112,427, and \$99,435, respectively, equal to the required contributions for each year.

10. OTHER EMPLOYEE BENEFITS

All full-time City employees accumulate sick leave hours for subsequent use. Except for a portion that is paid annually, the accumulation of sick leave hours did not vest as of June 30, 2007, and therefore is not recognized as a liability until used by the employee or upon retirement or death. The City's approximate contingent liability for the unvested sick leave as of June 30, 2007 is as follows:

Governmental activities	\$253,478
Business type activities	<u>206,846</u>
 TOTAL	 <u>\$460,324</u>

11. INDUSTRIAL DEVELOPMENT REVENUE BONDS

The City has issued a total of \$1,000,000 of industrial development revenue bonds, of which \$665,585 is outstanding at June 30, 2007. The bonds and related interest are payable solely from the rents payable by tenants of the properties constructed, and the bond principal and interest do not constitute liabilities of the City.

12. DEFICIT BALANCES

At June 30, 2007, the general fund had an undesignated deficit balance of \$86,654. The City is in the process of finding a solution to the problem. The City did not request the maximum amount of tax increment financing (TIF) revenues for fiscal year ending June 30, 2007. It is the intention of the City not to request the maximum amount of TIF for years ending after June 30, 2008. This will result in more property tax revenues for the general fund. The City will begin to collect an emergency levy in fiscal year ending June 30, 2008 and the local option sales tax referendum was changed which will allow 60% of the tax to be allocated to the general fund effective December 1, 2007. The City believes these actions, in addition to controlling expenditures and a general increase in property tax valuations, will eliminate the deficit.

The capital projects fund had a deficit balance of \$5,240,200 at June 30, 2007. The deficit will be eliminated from the proceeds of a bond issue and transfers from other funds.

13. COMMITMENTS

The City has entered into several contracts for a water tower, paving projects, and other infrastructure projects. A summary of the uncompleted projects is as follows:

Contract total	\$6,730,390
Completed at June 30, 2007	<u>4,286,332</u>
 Uncompleted	 <u>\$2,444,058</u>

The City has committed funds to several nonprofit organizations, including \$100,000 per year for nine years for a new YMCA. No contracts have been signed. The City will report the expenditures in the year payments are made.

14. SUBSEQUENT EVENTS

Subsequent to June 30, 2007, the City entered into two construction projects for lift station and drainage projects totaling \$231,148.

The City also issued \$5,390,000 of general obligation annual urban renewal appropriation bonds during July 2007.

On November 20, 2007, a citizen filed a lawsuit against the City claiming abuse of process and false arrest by the police department. The City intends to defend itself; and at this time, no determination of an outcome can be made.

15. SIGNIFICANT GROUP CONCENTRATION OF CREDIT RISK

In the course of selling water and sewer services, the City grants credit to customers, all of whom are local residents.

16. RISK MANAGEMENT

The City is a member in the Iowa Communities Assurance Pool, as allowed by Chapter 670.7 of the Code of Iowa. The Iowa Communities Assurance Pool (Pool) is a local government risk-sharing pool whose 556 members include various governmental entities throughout the State of Iowa. The Pool was formed in August 1986 for the purpose of managing and funding third-party liability claims against its members. The Pool provides coverage and protection in the following categories: general liability, automobile liability, automobile physical damage, public officials liability, police professional liability, property, inland marine, and boiler/machinery. There have been no reductions in insurance coverage from prior years.

Each members' annual casualty contributions to the Pool fund current operations and provide capital. Annual operating contributions are those amounts necessary to fund, on a cash basis, the Pool's general and administrative expenses, claims, claims expenses and reinsurance expenses due and payable in the current year, plus all or any portion of any deficiency in capital. Capital contributions are made during the first six years of membership and are maintained to equal 300 percent of the total current members' basis rates or to comply with the requirements of any applicable regulatory authority having jurisdiction over the Pool.

The Pool also provides property coverage. Members who elect such coverage make annual operating contributions which are necessary to fund, on a cash basis, the Pool's general and administrative expenses and reinsurance premiums, all of which are due and payable in the current year, plus all or any portion of any deficiency in capital. Any year-end operating surplus is transferred to capital. Deficiencies in operations are offset by transfers from capital and, if insufficient, by the subsequent year's member contributions.

The City's property and casualty contributions to the risk pool are recorded as expenditures from its operating funds at the time of payment to the risk pool. The City's annual contributions to the Pool for the year ended June 30, 2007 were \$90,422.

The Pool uses reinsurance and excess risk-sharing agreements to reduce its exposure to large losses. The Pool retains general, automobile, police professional, and public officials' liability risks up to \$350,000 per claim. Claims exceeding \$350,000 are reinsured

in an amount not to exceed \$2,650,000 per claim and \$5,000,000 in aggregate per year. For members requiring specific coverage from \$3,000,000 to \$10,000,000, such excess coverage is also reinsured. Property and automobile physical damage risks are retained by the Pool up to \$100,000 each occurrence, each location, with excess coverage reinsured on an individual-member basis.

The Pool's intergovernmental contract with its members provides that in the event a casualty claim or series of claims exceeds the amount of risk-sharing protection provided by the member's risk-sharing certificate, or in the event that a series of casualty claims exhausts total members' equity plus any reinsurance and any excess risk-sharing recoveries, then payment of such claims shall be the obligation of the respective individual member. The City does not report a liability for losses in excess of reinsurance or excess risk-sharing recoveries unless it is deemed probable such losses have occurred and the amount of such loss can be reasonably estimated. Accordingly, at June 30, 2007, no liability has been recorded in the City's financial statements. As of June 30, 2007, settled claims have not exceeded the risk pool or reinsurance coverage since the pool's inception.

Members agree to continue membership in the Pool for a period of not less than one full year. After such period, a member who has given 60 days' prior written notice may withdraw from the Pool. Upon withdrawal, payments for all claims and claims expenses become the sole responsibility of the withdrawing member, regardless of whether a claim was incurred or reported prior to the member's withdrawal. Members withdrawing within the first six years of membership may receive a partial refund of their capital contributions. If a member withdraws after the sixth year, the member is refunded 100 percent of its capital contributions. However, the refund is reduced by an amount equal to the annual operating contribution which the withdrawing member would have made for the one-year period following withdrawal.

The City has established a partial self-insurance health insurance fund (an internal service fund) to account for group insurance risks. The City has agreed to pay a portion of the employees' deductible.

The claims liability of \$-0- reported in the fund at June 30, 2007 is based on claims reported but unpaid and estimated claims incurred but not reported as of June 30, 2007. Changes in the balances of claims liability during the year are as follows:

Unpaid claims - June 30, 2006	\$ 3,898
Incurred claims	13,906
Less claims paid	<u>(17,804)</u>
Unpaid claims - June 30, 2007	<u>\$ -</u>

The City has workmen's compensation coverage through the Iowa Municipalities Workers' Compensation Association. In addition, the City purchases employee blanket bond coverage from other insurers. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

17. USE OF ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF SPIRIT LAKE
BUDGETARY COMPARISON SCHEDULE OF RECEIPTS, DISBURSEMENTS
AND CHANGES IN BALANCES - BUDGET AND ACTUAL (CASH BASIS) -
GOVERNMENTAL AND PROPRIETARY FUNDS
REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED JUNE 30, 2007

	Governmental Funds <u>Actual</u>	Proprietary Funds <u>Actual</u>	Total <u>Actual</u>
RECEIPTS:			
Property taxes	\$ 1,463,280		\$ 1,463,280
Other city taxes	993,763		993,763
Tax increment financing revenues	1,878,437		1,878,437
Licenses and permits	90,771		90,771
Use of money and property	146,201	\$ 27,551	173,752
Intergovernmental	739,507	9,408	748,915
Charges for services	88,022	2,738,101	2,826,123
Special assessments		2,420	2,420
Miscellaneous	<u>283,654</u>	<u>33,614</u>	<u>317,268</u>
TOTAL RECEIPTS	<u>5,683,635</u>	<u>2,811,094</u>	<u>8,494,729</u>
DISBURSEMENTS:			
Program:			
Public safety	951,592		951,592
Public works	1,696,476		1,696,476
Culture and recreation	585,403		585,403
Community and economic development	225,124		225,124
General government	495,719		495,719
Debt service	3,116,251		3,116,251
Capital projects	6,914,420		6,914,420
Business type		3,749,282	3,749,282
Non-program		<u>25,031</u>	<u>25,031</u>
TOTAL DISBURSEMENTS	<u>13,984,985</u>	<u>3,774,313</u>	<u>17,759,298</u>
EXCESS (DEFICIENCY) OF RECEIPTS OVER (UNDER) DISBURSEMENTS	<u>(8,301,350)</u>	<u>(963,219)</u>	<u>(9,264,569)</u>
OTHER FINANCING SOURCES (USES):			
Operating transfer in	8,734,196	117,500	8,851,696
Operating transfer out	(8,738,691)	(113,005)	(8,851,696)
Bond and note proceeds - net	5,251,938	2,379,300	7,631,238
Sale of fixed assets	<u>43,000</u>		<u>43,000</u>
TOTAL OTHER FINANCING SOURCES (USES)	<u>5,290,443</u>	<u>2,383,795</u>	<u>7,674,238</u>
EXCESS (DEFICIENCY) OF RECEIPTS AND OTHER FINANCING SOURCES (USES) OVER (UNDER) DISBURSEMENTS	<u>(3,010,907)</u>	<u>1,420,576</u>	<u>(1,590,331)</u>
BALANCE - BEGINNING OF YEAR	<u>1,322,003</u>	<u>1,457,069</u>	<u>2,779,072</u>
BALANCE - END OF YEAR	<u>\$ (1,688,904)</u>	<u>\$2,877,645</u>	<u>\$1,188,741</u>

Less Funds Not Required to be <u>Budgeted</u>	<u>Net Actual</u>	<u>Original Budget</u>	<u>Final Budget</u>	<u>Final to Actual Variance</u>
	\$ 1,463,280	\$ 1,446,582	\$ 1,446,582	\$ 16,698
	993,763	872,026	872,026	121,737
	1,878,437	1,955,023	1,955,023	(76,586)
	90,771	142,625	142,625	(51,854)
\$ 8,130	165,622	32,000	108,000	57,622
	748,915	906,000	906,000	(157,085)
54,034	2,772,089	3,346,272	3,422,072	(649,983)
	2,420			2,420
<u>1,434</u>	<u>315,834</u>	<u>157,524</u>	<u>280,636</u>	<u>35,198</u>
<u>63,598</u>	<u>8,431,131</u>	<u>8,858,052</u>	<u>9,132,964</u>	<u>(701,833)</u>
	951,592	903,026	1,022,736	71,144
	1,696,476	693,356	1,846,356	149,880
	585,403	580,337	616,837	31,434
	225,124	200,000	417,000	191,876
	495,719	499,219	551,977	56,258
	3,116,251	2,066,454	3,206,804	90,553
	6,914,420	6,197,000	7,568,762	654,342
	3,749,282	14,608,008	4,507,278	757,996
<u>25,031</u>	<u>17,734,267</u>	<u>25,747,400</u>	<u>19,737,750</u>	<u>2,003,483</u>
<u>25,031</u>	<u>17,734,267</u>	<u>25,747,400</u>	<u>19,737,750</u>	<u>2,003,483</u>
<u>38,567</u>	<u>(9,303,136)</u>	<u>(16,889,348)</u>	<u>(10,604,786)</u>	<u>1,301,650</u>
117,500	8,734,196	8,503,674	9,693,020	(958,824)
	(8,851,696)	(8,503,674)	(9,693,020)	841,324
	7,631,238	16,600,000	12,910,000	(5,278,762)
	<u>43,000</u>			<u>43,000</u>
<u>117,500</u>	<u>7,556,738</u>	<u>16,600,000</u>	<u>12,910,000</u>	<u>(5,353,262)</u>
156,067	(1,746,398)	(289,348)	2,305,214	(4,051,612)
<u>249,411</u>	<u>2,529,661</u>	<u>3,735,736</u>	<u>3,779,880</u>	<u>(1,250,219)</u>
<u>\$405,478</u>	<u>\$ 783,263</u>	<u>\$ 3,446,388</u>	<u>\$ 6,085,094</u>	<u>\$ (5,301,831)</u>

CITY OF SPIRIT LAKE
BUDGET TO GAAP RECONCILIATION
REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED JUNE 30, 2007

	<u>Governmental Funds</u>		
	<u>Cash Basis</u>	<u>Accrual Adjustments</u>	<u>Modified Accrual Basis</u>
REVENUES	\$ 5,683,635	\$ 155,321	\$ 5,838,956
EXPENDITURES/EXPENSES	<u>13,984,985</u>	<u>9,092</u>	<u>13,994,077</u>
NET	(8,301,350)	146,229	(8,155,121)
OTHER FINANCING SOURCES (USES) - NET ...	5,290,443	(38,605)	5,251,838
BEGINNING FUND BALANCES/NET ASSETS	1,322,003	(2,702,243)	(1,380,240)
NET INCREASE IN RESERVES FOR PREPAID EXPENSES AND INVENTORIES	<u> </u>	<u>(19,845)</u>	<u>(19,845)</u>
ENDING FUND BALANCES/NET ASSETS	<u>\$ (1,688,904)</u>	<u>\$ (2,614,464)</u>	<u>\$ (4,303,368)</u>

<u>Proprietary Funds</u>		
<u>Cash</u> <u>Basis</u>	<u>Accrual</u> <u>Adjustments</u>	<u>Accrual</u> <u>Basis</u>
\$2,811,094	\$ (124,642)	\$ 2,686,452
<u>3,774,313</u>	<u>(1,302,960)</u>	<u>2,471,353</u>
(963,219)	1,178,318	215,099
2,383,795	(1,829,695)	554,100
1,457,069	8,156,813	9,613,882
<hr/>	<hr/>	<hr/>
<u>\$2,877,645</u>	<u>\$7,505,436</u>	<u>\$10,383,081</u>

CITY OF SPIRIT LAKE
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY REPORTING
FOR THE YEAR ENDED JUNE 30, 2007

The budgetary comparison is presented as Required Supplementary Information in accordance with Government Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures. Encumbrances are not recognized on the cash basis budget and appropriations lapse at year end.

Formal and legal budgetary control is based upon nine major classes of disbursements known as functions, not by fund or fund type. These nine functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, and business-type activities. Function disbursements required to be budgeted include disbursements for the general fund, special revenue funds, debt service fund, capital projects funds, and enterprise funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, one budget amendment decreased budgeted disbursements by \$6,009,650. This budget amendment is reflected in the final budgeted amounts.

During the year, disbursements did not exceed budgeted amounts.

OTHER SUPPLEMENTARY INFORMATION

CITY OF SPIRIT LAKE
COMBINING BALANCE SHEET
ALL NONMAJOR GOVERNMENTAL FUNDS
JUNE 30, 2007

	Special Revenue Funds				
	Road Use Tax	Employee Benefits	LMI	Friends of the Library	Total
ASSETS:					
Cash and pooled investments	\$ 25,539	\$ 11,432		\$ 28,723	\$ 65,694
Receivables:					
Property tax:					
Delinquent		2,832			2,832
Succeeding year		294,156			294,156
Accrued interest				145	145
Due from other governments	<u>29,264</u>				<u>29,264</u>
 TOTAL ASSETS	 <u>\$ 54,803</u>	 <u>\$308,420</u>	 <u>\$</u>	 <u>\$ 28,868</u>	 <u>\$392,091</u>
 LIABILITIES AND FUND BALANCES					
LIABILITIES:					
Accounts payable	\$ 21,600			\$ 643	\$ 22,243
Salaries payable		\$ 5,835			5,835
Deferred revenue:					
Succeeding year property tax		<u>294,156</u>			<u>294,156</u>
TOTAL LIABILITIES	<u>21,600</u>	<u>299,991</u>		<u>643</u>	<u>322,234</u>
 FUND BALANCES:					
Undesignated:					
Reported in special revenue funds	<u>33,203</u>	<u>8,429</u>		<u>28,225</u>	<u>69,857</u>
TOTAL FUND BALANCES	<u>33,203</u>	<u>8,429</u>		<u>28,225</u>	<u>69,857</u>
 TOTAL LIABILITIES AND FUND EQUITY	 <u>\$ 54,803</u>	 <u>\$308,420</u>	 <u>\$</u>	 <u>\$ 28,868</u>	 <u>\$392,091</u>

CITY OF SPIRIT LAKE
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES
ALL NONMAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2007

	Special Revenue Funds				
	Road Use Tax	Employee Benefits	LMI	Friends of the Library	Total
REVENUES:					
Property taxes		\$296,758			\$ 296,758
Use of money and property				\$ 2,009	2,009
Intergovernmental	\$357,613			5,484	363,097
Miscellaneous				22,355	22,355
TOTAL REVENUES	<u>357,613</u>	<u>296,758</u>		<u>29,848</u>	<u>684,219</u>
EXPENDITURES:					
Public safety		147,532			147,532
Public works	306,296	65,739			372,035
Culture and recreation		64,562		42,359	106,921
Community and economic development			\$115,000		115,000
General government		13,353			13,353
TOTAL EXPENDITURES	<u>306,296</u>	<u>291,186</u>	<u>115,000</u>	<u>42,359</u>	<u>754,841</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	51,317	5,572	(115,000)	(12,511)	(70,622)
OTHER FINANCING SOURCES (USES):					
Operating transfers in			115,000		115,000
Operating transfers out	(47,000)				(47,000)
NET CHANGE IN FUND BALANCES	4,317	5,572		(12,511)	(2,622)
FUND BALANCES - BEGINNING OF YEAR.....	<u>28,886</u>	<u>2,857</u>		<u>40,736</u>	<u>72,479</u>
FUND BALANCES - END OF YEAR	<u>\$ 33,203</u>	<u>\$ 8,429</u>	<u>\$ _____</u>	<u>\$ 28,225</u>	<u>\$ 69,857</u>

CITY OF SPIRIT LAKE
 SCHEDULE OF REVENUES BY SOURCE AND EXPENDITURES BY FUNCTION -
 ALL GOVERNMENTAL FUNDS
 FOR THE LAST FOUR YEARS

	Modified Accrual Basis			
	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>
REVENUES:				
Property tax	\$ 1,462,918	\$ 1,129,537	\$ 843,981	\$1,142,851
Tax increment financing	1,872,314	2,172,594	1,731,352	1,391,242
Other city taxes	988,312	826,485	891,781	805,299
Licenses and permits	90,944	131,435	108,201	97,195
Use of money and property	139,049	97,431	20,284	31,565
Intergovernmental	1,038,973	454,263	859,592	1,223,829
Charges for services	19,308	121,608	18,413	17,015
Miscellaneous	<u>227,138</u>	<u>208,725</u>	<u>443,630</u>	<u>258,407</u>
 TOTAL REVENUES	 <u>\$ 5,838,956</u>	 <u>\$ 5,142,078</u>	 <u>\$ 4,917,234</u>	 <u>\$4,967,403</u>
 EXPENDITURES:				
Public safety	\$ 941,969	\$ 859,905	\$ 778,099	\$ 905,311
Public works	1,373,452	1,100,480	699,150	656,959
Culture and recreation	560,404	649,885	404,370	340,008
Community and economic development	413,350	485,132	287,054	649,057
General government	317,099	363,725	308,252	317,372
Debt service	3,094,800	1,879,487	4,922,135	1,562,485
Capital projects	<u>7,293,003</u>	<u>5,042,715</u>	<u>3,701,608</u>	<u>4,212,887</u>
 TOTAL EXPENDITURES	 <u>\$13,994,077</u>	 <u>\$10,381,329</u>	 <u>\$11,100,668</u>	 <u>\$8,644,079</u>

CITY OF SPIRIT LAKE
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2007

<u>GRANTOR/PROGRAM</u>	<u>CFDA Number</u>	<u>Pass-through Number</u>	<u>Program Expenditures</u>
Indirect:			
Environmental Protection Agency:			
Iowa Finance Authority:			
Capitalization Grants for Drinking Water			
State Revolving Funds	66.468	FS-30-06-DWSRF-003	\$1,091,476
U.S. Department of Housing and Urban Development:			
Iowa Department of Economic Development:			
Community Development Block Grant	14.228	04-ED-003	6,000
Department of Homeland Security:			
Iowa Homeland Security and Emergency			
Management Division:			
Disaster Grants - Public Assistance Grants			
(Presidentially Declared Disasters)	97.036	EM-3275-IA	<u>16,843</u>
TOTAL			<u>\$1,114,319</u>

Basis of Presentation - The Schedule of Expenditures of Federal Awards includes the federal grant activity of the City of Spirit Lake and is presented on the accrual or modified accrual basis of accounting. The information on this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organization*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

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**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

The Honorable Mayor and
Members of the City Council
City of Spirit Lake
Spirit Lake, IA 51360

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Spirit Lake, Iowa, as of and for the year ended June 30, 2007, which collectively comprise the City's basic financial statements listed in the table of contents and have issued our report thereon dated January 9, 2008. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies and another deficiency we consider to be a material weakness.

A control deficiency exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City's ability to initiate, authorize, record, process, or report financial data reliably in accordance with U.S. generally accepted accounting principles such that there is more than a remote likelihood a

misstatement of the City's financial statements that is more than inconsequential will not be prevented or detected by the City's internal control. We consider the deficiencies in internal control described in Part II of the accompanying Schedule of Findings and Questioned Costs to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood a material misstatement of the financial statements will not be prevented or detected by the City's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we believe item II-A-07 is a material weakness.

Compliance

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of non-compliance or other matters that are described in Part IV of the accompanying Schedule of Findings and Questioned Costs.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2007 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

The City's responses to findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. While we have expressed our conclusions on the City's responses, we did not audit the City's responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of Spirit Lake, and other parties to whom the City may report. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the City during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.



January 9, 2008

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Certified Public Accountants

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INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND
ON INTERNAL CONTROL OVER COMPLIANCE
IN ACCORDANCE WITH OMB CIRCULAR A-133

The Honorable Mayor and
Members of the City Council
City of Spirit Lake
Spirit Lake, IA 51360

Compliance

We have audited the compliance of the City of Spirit Lake, Iowa, with the types of compliance requirements described in U.S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that are applicable to its major federal program for the year ended June 30, 2007. The City's major federal program is identified in Part I of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

We conducted our audit of compliance in accordance with U.S. generally accepted auditing standards, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and provisions require that we plan and perform the audit to obtain reasonable assurance about whether non-compliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the City's compliance with those requirements.

In our opinion, the City of Spirit Lake complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2007.

Internal Control Over Compliance

The management of the City is responsible for establishing and maintaining effective internal control over compliance with requirement of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the City's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing an opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

A control deficiency in the City's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect non-compliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City's ability to administer a federal program such that there is more than a remote likelihood non-compliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the City's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood material non-compliance with a type of compliance requirement of a federal program will not be prevented or detected by the City's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of Spirit Lake and other parties to whom the City may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink, reading "Winkler, Steve H. L.L.P." in a cursive script.

January 9, 2008

CITY OF SPIRIT LAKE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2007

Part I: Summary of the Independent Auditors' Results

- a. Unqualified opinions were issued on the financial statements.
- b. Significant deficiencies in internal control over financial reporting were disclosed by the audit of the financial statements, including a material weakness.
- c. The audit did not disclose any non-compliance which is material to the financial statements.
- d. No material weaknesses in internal control over the major program were noted.
- e. An unqualified opinion was issued on compliance with requirements applicable to the major program.
- f. The audit disclosed no audit findings which were required to be reported in accordance with Office of Management and Budget Circular A-133, Section .510(a).
- g. The major program was CFDA Number 66.468 - Capitalization Grants for Drinking Water State Revolving Funds.
- h. The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- i. The City of Spirit Lake did not qualify as a low-risk auditee.

CITY OF SPIRIT LAKE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS - Continued
FOR THE YEAR ENDED JUNE 30, 2007

Part II: Findings Related to the General Purpose Financial Statements

Reportable Conditions:

II-A-07 Segregation of Duties - One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. We noted, because of the limited number of employees, there are times when employees are performing duties which are not compatible.

Recommendation - We realize that with a limited number of office employees segregation of duties is difficult. However, the City should review its control procedures to obtain the maximum internal control possible under the circumstances.

Response - The City will continue to review its control procedures.

Conclusion - Response accepted.

II-B-07 IRC Section 457 Plans - The City has three 457 plans. It appears that the plan documents have not been updated for recent Internal Revenue Code changes.

Recommendation - We recommend the City hire a consultant familiar with 457 plans to review and update the plan documents, if required.

Response - The City will follow this recommendation.

Conclusion - Response accepted.

Instances of Non-Compliance:

No findings were noted.

Part III: Findings and Questioned Costs for Federal Awards

Instances of Non-Compliance:

No findings were noted.

Reportable Conditions:

No material weaknesses in internal control over the major program were reported.

CITY OF SPIRIT LAKE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS - Continued
FOR THE YEAR ENDED JUNE 30, 2007

Part IV: Other Findings Related to Required Statutory Reporting

IV-A-07 Certified Budget - We noted that disbursements in the public works and community and economic development functions exceeded the original budgeted amounts before the budget was amended. Chapter 384.20 of the Code of Iowa states in part that public monies may not be expended or encumbered except under an annual or continuing appropriation.

Recommendation - The budget should have been amended in sufficient amounts in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget.

Response - In the future, we will amend the budget prior to allowing disbursements to exceed budgeted amounts, if applicable.

Conclusion - Response accepted.

IV-B-07 Questionable Expenditures - We noted no expenditures that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.

IV-C-07 Travel Expense - No expenditures of City money for travel expenses of spouses of City officials or employees were noted.

IV-D-07 Business Transactions - Business transactions between the City and City officials or employees are detailed as follows:

<u>Name, Title, and Business Connection</u>	<u>Description</u>	<u>Amount</u>
Jerry Harbst, Council Member, owner of Converged Technologies, LLC	Telephone System Camera set up fees	\$ 4,592 1,499

The transactions do not appear to represent a conflict of interest.

The telephone system was purchased through competitive bidding and the camera set-up fees were less than \$1,500.

IV-E-07 Bond Coverage - Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.

IV-F-07 Council Minutes - No transactions were found that we believe should have been approved in the Council minutes but were not.

CITY OF SPIRIT LAKE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS - Continued
FOR THE YEAR ENDED JUNE 30, 2007

Part IV: Other Findings Related to Required Statutory Reporting - Continued

IV-G-07 Revenue Bonds/Notes - No non-compliance with revenue note provisions were noted.

IV-H-07 Deposits and Investments - No instances of non-compliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the City's investment policy were noted.

IV-I-07 Financial Condition - The Capital Projects Fund had a deficit balance of \$5,240,200 at June 30, 2007.

Recommendation - The City needs to investigate alternatives to eliminate this deficit and return this fund to a sound financial condition.

Response - The deficit will be eliminated by the proceeds of a new bond issue

Conclusion - Response accepted.